



Draft Guidance on the Automatic Exchange of Information

December 2016

Inland Revenue

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[This guidance is in draft form, based on the proposed approach set out in the 2016 Taxation (Business Tax, Exchange of Information, and Remedial Matters) Bill, and at this time is subject to the Parliamentary process.]

1 Background

1.1 Overview of the Common Reporting Standard for the Automatic Exchange of Information

Globalisation has made it easier for persons to invest outside of their jurisdiction of tax residence. This has provided opportunities for offshore tax evasion.

In response, the OECD has developed the Common Reporting Standard (CRS) for Automatic Exchange of Financial Account Information in Tax Matters (AEOI) to provide a global framework for the collection, reporting, and exchange of financial account information about persons that invest outside of their jurisdiction of tax residence. This will assist in detecting and deterring offshore tax evasion.

In broad terms, the CRS requires that financial institutions carry out the following steps:

- **Due diligence:**
 - review their financial accounts to identify accounts held (and/or, in certain circumstances, controlled) by foreign tax residents; and
 - collect prescribed¹ identity and financial account information about such persons; and
- **Reporting:**
 - report this information to the local revenue authority for exchange with the jurisdiction of tax residence of the account holder (or controlling person).

The CRS is accompanied by a Commentary (the CRS Commentary), which supplements these due diligence and reporting obligations. The OECD has also produced guidance about the practical application of these obligations. This includes a CRS Implementation Handbook and guidance set out in answers to “Frequently Asked Questions”. All of the OECD guidance is available on the OECD’s website (at <http://www.oecd.org/tax/automatic-exchange>).

The success of the CRS will depend on how effectively and consistently it is implemented around the world. The OECD will rigorously monitor whether implementing jurisdictions (such as New Zealand) are complying with the CRS. This will occur through the OECD’s monitoring agency – the

¹ This prescribed information is outlined in detail further below at paragraph 6.

Global Forum on Transparency and Exchange of Information for Tax Purposes. The G20 has stated that it will (if necessary) apply sanctions to address non-compliance by jurisdictions.

Accordingly, the New Zealand Government is taking CRS implementation seriously and has made international commitments to implement the CRS in full accordance with the CRS and the CRS Commentary. Therefore, both the CRS and the CRS Commentary will be directly incorporated into New Zealand law, subject to certain modifications that will be set out in the Tax Administration Act 1994.

The CRS builds largely off a similar bilateral framework that applies for due diligence, reporting, and exchanging of financial account information under the *Foreign Account Taxation Compliance Act* (FATCA) Intergovernmental Agreement (IGA) that New Zealand has entered into with the United States. However, as explained further below, a key difference is that the CRS is multilateral.

New Zealand has committed to commencing CRS obligations from 1 July 2017. From that date:²

- Reporting New Zealand financial institutions will have CRS due diligence obligations (to review their financial accounts) and reporting obligations (to report³ to Inland Revenue about relevant foreign tax residents they identified when reviewing their financial accounts). A Reporting New Zealand financial institution is a New Zealand financial institution that is not otherwise exempted.
- Persons that hold accounts with such reporting NZFIs (or are otherwise connected with such accounts) will sometimes have obligations to obtain and provide information to assist the institution to carry out their due diligence and reporting obligations.
- New Zealand (through Inland Revenue) will have obligations to exchange financial account information with certain other jurisdictions for AEOI purposes.

The jurisdictions that New Zealand will **provide** AEOI information to are known as Reportable Jurisdictions. The jurisdictions that New Zealand will **receive** AEOI information from are known as Participating Jurisdictions. All exchanges of information between jurisdictions will be conducted under, and be subject to the strict terms of, international tax treaties.⁴

² As explained in detail further below, these obligations will be set out in Part 11B of the Tax Administration Act 1994.

³ As explained further below at paragraph 1.6, the scope of these reporting obligations will depend on whether the financial institution chooses to adopt what is known as the “wider approach” to reporting.

⁴ The predominant tax treaty to be used for AEOI exchanges will be the joint OECD/Council of Europe Multilateral Convention on Mutual Administrative Assistance in Tax Matters, which New Zealand signed in 2012. Other possible tax treaties that could potentially be used for AEOI exchanges include double tax agreements (DTAs) and tax information exchange agreements (TIEAs).

Currently, 100 jurisdictions have committed to implement the CRS on a similar or earlier timeline to that adopted by New Zealand. These (future) implementing jurisdictions will not necessarily all exchange with each other.

For example, some jurisdictions without tax systems may not be interested in receiving AEOI information as they do not face tax evasion concerns. Importantly, the OECD also acknowledges that information should only be provided to jurisdictions that have confidentiality and data safeguards in place that will ensure that exchanged information is only disclosed to authorised persons and is only used for authorised purposes.

Internationally, the OECD has processes in place for reviewing the confidentiality and data safeguards of implementing jurisdictions and for disseminating information on the jurisdictions that have agreed to exchange with each other.

Domestically, New Zealand also needs to publish its own lists of Reportable Jurisdictions and Participating Jurisdictions. The Reportable Jurisdiction list will be subject to Government oversight and issued by Order in Council. The Participating Jurisdiction list does not require Government oversight, and will therefore be issued by Commissioner's determination.⁵

1.2 Use of information by Inland Revenue

The exchange of financial account information will mean that New Zealand will receive better information about New Zealand tax residents' offshore investments. This will assist Inland Revenue in verifying that these persons have paid the correct tax on these offshore investments. This will, in turn, aid in detecting and deterring offshore tax evasion by New Zealand tax residents.

Information collected from Reporting New Zealand Financial Institutions under CRS may also be used by Inland Revenue for purposes other than AEOI. This information will only be used by Inland Revenue for matters consistent with its statutory role and obligations. For example, Inland Revenue could potentially use this information to assist it to verify that the correct rates have been used for non-resident withholding tax. Inland Revenue has been liaising with the Office of the Privacy Commissioner regarding potentially using the information in this way and will continue to do so.

1.3 Purpose of this guidance

This guidance is intended to provide operational advice in the New Zealand context, for financial institutions that are implementing the CRS, and others who may have CRS obligations. It includes references to specific parts of the CRS, the CRS Commentary (and the related OECD CRS implementation handbook, and the OECD's answers to "Frequently Asked Questions") that the reader may find useful.

⁵ These lists will be published after enactment of the legislation. The Reportable Jurisdictions list will largely be based on the outcome of the OECD confidentiality and data safeguards reviews, subject to submissions from stakeholders contesting the outcomes of the OECD reviews.

This guidance is intended to be a self-contained document that can be used by a wide range of taxpayers to clarify their CRS obligations. The following roadmap should assist taxpayers in identifying the part of the guidance that is most relevant to them:

- Taxpayers that are seeking to clarify whether they are Reporting New Zealand financial institutions (Reporting NZFIs) with CRS obligations should go to paragraph 3 of the guidance.
- Taxpayers that know they are Reporting NZFIs, but are seeking to clarify what their CRS due diligence obligations are should go to paragraphs 4-5 of the guidance.
- Taxpayers that know they are Reporting NZFIs, but are seeking to clarify what their CRS reporting obligations are should go to paragraph 6 of the guidance.
- Taxpayers that hold accounts with Reporting NZFIs (or are otherwise connected with such accounts) and want to know what obligations they have should go to paragraph 9.2 of the guidance.
- Taxpayers that are seeking to clarify how the CRS applies to fund managers and investment advisers should go to paragraphs 3.1.3 and 4.5.1 of the guidance.
- Taxpayers that are seeking to clarify how the CRS applies to trusts should go to paragraphs 11.1 to 11.2 of the guidance.
- Taxpayers that are seeking to clarify how the CRS applies to partnerships should go to paragraph 11.3 of the guidance.
- Taxpayers that are seeking to clarify how the CRS applies to collective investment vehicles should go to paragraph 11.4 of the guidance.
- Taxpayers that are seeking to clarify how the CRS applies to deceased estates should go to paragraph 11.5 of the guidance.

The Appendices to the guidance also contains a summary of various matters. This includes:

- a comparison between FATCA and CRS; and
- the options that Reporting NZFIs can take when carrying out CRS due diligence and reporting.

The information in these Appendices will assist Reporting NZFIs that are looking for ways to:

- leverage off existing procedures when implementing CRS; and
- make decisions to decrease the compliance costs associated with implementing CRS.

1.4 High level summary of CRS due diligence and reporting obligations

In broad terms, the CRS will require Reporting NZFIs from 1 July 2017 to:

- carry out due diligence on their financial accounts to identify accounts held (and/or, in certain circumstances, controlled)⁶ by relevant foreign tax residents;
- collect prescribed identity and financial account information about such persons (and accounts); and
- report⁷ this information annually to Inland Revenue.

(For these purposes, an entity such as a partnership, limited liability partnership or similar legal arrangement that has no residence for tax purposes is required to be treated for CRS purposes as being resident in the jurisdiction in which its place of effective management is situated.)

Reporting NZFIs will be able to use service providers⁸ to carry out these due diligence and reporting obligations on their behalf. However, the legal obligations will remain with the Reporting NZFI.

1.5 CRS due diligence – incorporating the “wider approach”

A Reporting NZFI’s due diligence obligations incorporate what is known as the “wider approach” to due diligence. Under the wider approach to due diligence, Reporting NZFIs will be required to identify any relevant foreign tax resident **irrespective of** whether such persons are from Reportable Jurisdictions (jurisdictions that New Zealand will be providing AEOI information to). This is a compliance cost measure to deal with the fact that the number of Reportable Jurisdictions is likely to increase over time. Therefore, without the wider approach to due diligence Reporting NZFIs would need to constantly redo their due diligence each time a new jurisdiction becomes a Reportable Jurisdiction.

⁶ A Reporting NZFI will be required to identify “controlling persons” when they maintain an account that is held by a passive non-financial entity. This is broadly similar to the FACTA due diligence procedures. The due diligence procedures relating to controlling persons are set out at paragraph 5.

⁷ As explained further below, the scope of these reporting obligations will depend on whether the Reporting NZFI chooses to adopt what is known as the “wider approach” to reporting.

⁸ Pages 132-133 of the CRS Commentary set out the procedures and steps that a Reporting NZFI would need to have in place if they choose to use such a service provider.

Reporting NZFIs will be required to adopt the wider approach to due diligence as follows:

- to review their financial accounts to identify accounts held (and/or, in certain circumstances, controlled) by relevant foreign tax residents; and
- to collect prescribed identity and financial information about such persons (and accounts).

The **relevant** persons (in this context) cover all foreign tax residents other than:

- a corporation the stock of which is regularly traded on one or more established securities markets;
- any corporation that is a related entity of a corporation the stock of which is regularly traded on one or more established securities markets;
- a Government entity;
- an international organisation;
- a central bank; or
- a financial institution.

This guidance will refer to foreign tax residents that are not excluded in this way as being “relevant foreign tax residents”.

1.6 CRS reporting

Reporting NZFIs will be required to report prescribed⁹ identity and financial information annually to Inland Revenue about accounts they have identified as being held (and/or, in certain circumstances, controlled) by a **relevant** foreign tax resident **if**:

- The person is resident in a Reportable Jurisdiction (a jurisdiction that New Zealand will provide AEOI information to). These are known as “Reportable Persons.”

Reporting NZFIs will **also** have the **option** of adopting what is known as the “wider approach” to reporting and reporting to Inland Revenue all accounts that they have identified as being held (and/or, in certain circumstances, controlled) by a relevant foreign tax resident, **irrespective of** whether those persons are resident in Reportable Jurisdictions. This is a compliance cost measure.

⁹ The information that Reporting NZFIs will need to report about such accounts is outlined in detail at paragraph 6 of this guidance.

This is because a Reporting NZFI that chooses to adopt the wider approach to reporting would simply be able to report all of the relevant foreign tax residents they have identified without needing to constantly review the list of Reportable Jurisdictions.

For the purposes of this guidance such accounts will be referred to as being “reportable accounts”.

Reporting NZFIs will **also** be required to report to Inland Revenue certain accounts where they have not been able to determine the residency of an account holder. These are known as “undocumented accounts”.¹⁰

New Zealand will be adopting a 31 March tax year for CRS due diligence and reporting purposes.¹¹ For these purposes, any reference in the CRS (and the related Commentary) to calendar year should be read as referring to the relevant period ended 31 March unless the context requires otherwise.

In broad terms, Reporting NZFIs will have a window from 1 April to 30 June of the year to report to Inland Revenue the prescribed information about their reportable accounts for the period ended 31 March. (The CRS reporting for a particular period will generally only cover accounts identified as reportable by the end of the 31 March reporting period. However, as explained further below, there is a special rule for the first two periods, which will require immediate reporting of certain reportable accounts.)

Inland Revenue will sort all the information it receives from Reporting NZFIs. It will identify the information for those accounts that are held (and/or controlled) by relevant foreign tax residents from Reportable Jurisdictions (known as Reportable Persons) and will provide the prescribed information about those accounts (and persons) to those jurisdictions by 30 September of the relevant year. These timeframes for CRS reporting and exchanging are in line with the FATCA timelines.

***Example 1:** A Reporting NZFI bank maintains an account held by Tom. The bank carries out due diligence on the account and determines that Tom is tax resident in jurisdiction B. New Zealand has an AEOI exchange relationship to provide financial account information to jurisdiction B (i.e. jurisdiction B is a Reportable Jurisdiction). Therefore, the account is held by a Reportable Person (Tom). The bank will be required to report prescribed information about the account to Inland Revenue in its annual CRS report by 30 June of the relevant year. Inland Revenue will then provide this information to jurisdiction B by 30 September.*

***Example 2:** A Reporting NZFI bank maintains an account held by Daniel. The bank carries out due diligence on the account and determines that Daniel is tax resident in jurisdiction C. New Zealand does not have an AEOI exchange relationship with jurisdiction C. Therefore, the account is held by a relevant person that is tax resident in a foreign jurisdiction (Daniel). However, it is not held by a person from a Reportable Jurisdiction (New Zealand does not have an AEOI exchange relationship to provide information to Daniel’s jurisdiction of tax residence – jurisdiction C). Therefore, the*

¹⁰ The limited circumstances when a Reporting NZFI is required to report an account as an undocumented account are outlined at paragraphs 5.3.2 and 5.3.3 of this guidance. Inland Revenue will not exchange “undocumented account” information. However, as contemplated at page 210 of the CRS Commentary, Inland Revenue may use such information for review and (in certain circumstances) audit activity.

¹¹ The first period will be a transitional period running from 1 July 2017 to 31 March 2018.

bank is not required to report this account. However, the bank may choose to adopt the “wider approach” to reporting. If the bank chooses to adopt the wider approach to reporting it would be required to report prescribed information about the account to Inland Revenue in its annual CRS report by 30 June of the relevant year.

1.7 Meaning of “account holder” and “controlling person” for CRS purposes

As noted above, Reporting NZFIs will need to carry out due diligence on their financial accounts to identify accounts **held** (and/or, in certain circumstances, **controlled**) by relevant foreign tax residents.

Reporting NZFIs will then need to report annually to Inland Revenue prescribed identity and financial account information about the reportable accounts they have identified.¹²

There are three important “building blocks” that need to be highlighted at this point:

- **Who** is an “account holder”?
- **When** is it necessary to identify the “controlling persons” of an account holder?
- **Who** will be the “controlling persons” of an account holder?

1.8 Meaning of “account holder” for the purposes of CRS due diligence

As noted above, the CRS requires that Reporting NZFIs carry out due diligence on their financial accounts to identify accounts **held** (and/or, in certain circumstances, controlled) by relevant foreign tax residents.

Therefore, a key threshold issue here is what constitutes who “holds” a financial account for CRS purposes. Section VIII(E)(1) of the CRS defines “account holder” as meaning:

the person listed or identified as the holder of a Financial Account by the Financial Institution that maintains the account. A person, other than a Financial Institution, holding a Financial Account for the benefit or account of another person as agent, custodian, nominee, signatory, investment advisor, or intermediary, is not treated as holding the account for purposes of the Common Reporting Standard, and such other person is treated as holding the account. In the case of a Cash Value Insurance Contract or an Annuity Contract, the Account Holder is any person entitled to access the Cash Value or change the beneficiary of the contract. If no person can access the Cash Value or change the beneficiary, the Account Holder is any person named as the owner in the contract and any person with a vested entitlement to payment under the terms of the contract. Upon the maturity of a Cash Value Insurance

¹² Reporting NZFIs will also need to report undocumented accounts. The meaning of “undocumented account” is outlined at paragraphs 1.6, 5.2.3 and 5.3.3 of this guidance.

Contract or an Annuity Contract, each person entitled to receive a payment under the contract is treated as an Account Holder.

Therefore, the **general rule** is that a Reporting NZFI should treat a person as an account holder if that person is listed or identified as holding the account (including both persons for joint accounts).

However, this is **subject to a trace-through rule** that applies where the account is held by a person, **other than a financial institution**, as agent, custodian, nominee, signatory, investment advisor, or intermediary for another person. In such circumstances, the **other person** that has been “identified” is the relevant account holder. Page 200 of the CRS Commentary provides that for the purposes of identifying “who” an account holder is, in terms of the application of this trace-through rule, a Reporting NZFI is able to rely on the information in their possession (including information collected for Anti-Money Laundering/Know Your Customer procedures) to reasonably determine this point.

In most cases, the issue of who holds an account will be fairly self-explanatory. However, the CRS Commentary also provides some useful clarification about how the “account holder” definition will apply in the context of estates, trusts and partnerships. For example, the CRS Commentary states (at page 200) that:

- if a trust or an estate is listed as the holder or owner of a financial account the trust or the estate is the account holder, rather than its owners or beneficiaries; and
- if a partnership is listed as the holder or owner of a financial account, the partnership is the account holder, rather than the partners of the partnership.

Example 1: Reporting NZFI 1 maintains an account for a trustee of a family trust and correctly determines that the account is held by the trust.

Example 2: Reporting NZFI 2 maintains an account listed in Tom’s name. Tom holds the account as nominee for Bill. Tom informs Reporting NZFI 2 of this fact when he opens the account. Reporting NZFI 2 correctly determines that the account is held by Bill.

Example 3: Reporting NZFI 3 maintains an account held by financial institution 4. Financial institution 4 is a custodial institution that holds fund as custodian for various investors. Reporting NZFI 3 correctly determines that financial institution 4 is the account holder. Reporting NZFI 3 is not required to apply the “trace through” rule in the definition of account holder. This is because the person listed as holding the account is a financial institution.¹³

¹³ However, as explained further below at paragraphs 5.5.2 and 5.6.2, a Reporting NZFI will be required to trace through a managed investment entity account holder that is tax resident in a jurisdiction that is not a Participating Jurisdiction to identify the entity’s controlling persons. This is because such entities are deemed to be passive non-financial entities, as opposed to financial institutions.

1.9 Identifying “controlling persons” for the purposes of CRS due diligence

As noted above, the CRS **also** requires that Reporting NZFIs carry out due diligence on their financial accounts to identify **certain** accounts **controlled** by relevant foreign tax residents. This **extra step** will apply if the account holder is a type of entity known as a **passive non-financial entity**.

This then raises the question of what types of entities are passive non-financial entities.

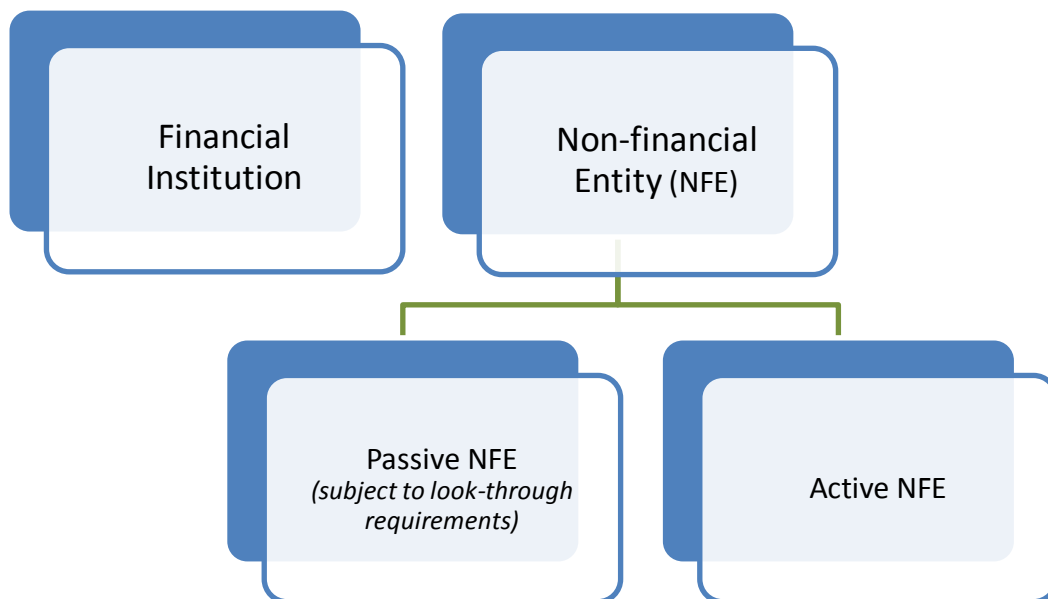
There are two types of entities¹⁴ for CRS purposes: financial institutions and non-financial entities (NFEs).

There are, in turn, four categories of financial institutions:

- custodial institution;
- depository institution;
- investment entity; and
- specified insurance company.

The meaning of “financial institution” is outlined in detail further below at paragraph 3.1.

If an entity is not a financial institution it will (by default) be a NFE. There are also two categories of NFEs: active NFEs and passive NFEs. An NFE that is not an active NFE will (by default) be a passive NFE.



¹⁴ The CRS definition of “entity” is broad and includes legal arrangements such as trusts.

The following matters are relevant when determining whether an NFE is a “passive NFE” (and, therefore, subject to the above “look-through” rule):

- In broad terms, a passive NFE will generally cover an entity that:
 - **is not** a financial institution; and
 - **either** derives predominantly (50% or more) passive income **and / or** has assets that predominantly produce or are held for the production of passive income.

However, there are some exceptions to this. For example, **if** a registered charity is an NFE it would generally be an active NFE even if it derives predominantly passive income. The reader should refer to the definitions of NFE, active NFE, and passive NFE in Appendix 4 for further detail.

- A managed investment entity (discussed below) that is tax resident in a jurisdiction that is **not** a Participating Jurisdiction is also deemed to be a passive NFE.

If a Reporting NZFI maintains an account that is held by a passive NFE it will need to “look through” that entity to identify its controlling persons (just like under FATCA). This then raises the question of **who** would be a “controlling person” in this context.

The CRS defines “controlling persons” of a passive NFE as meaning the natural persons who exercise control over the NFE (as summarised at pages 198 to 199 of the CRS Commentary). The term “controlling persons” must also be interpreted in a manner consistent with the Financial Action Task Force Recommendations. This is broadly in line with FATCA.

In the case of a passive NFE trust, this term means the settlor(s), the trustee(s), the protector(s), the beneficiaries or classes of beneficiaries, and any other natural person exercising ultimate effective control over the trust. The CRS Commentary confirms (at page 199) that settlors, trustees, protectors and beneficiaries will be treated as controlling persons of a passive NFE trust **irrespective of** whether they actually exercise control over the trust. (In the case of a legal arrangement other than a trust, this term means the persons in equivalent or similar positions.)

However, Reporting NZFIs that maintain accounts held by passive NFE trusts will have the **option** of treating discretionary beneficiaries of such trusts as being controlling persons only if these persons receive a distribution in the reporting period. As explained further below, a Reporting NZFI that chooses to exercise this option would be expected to have reasonable safeguards in place to determine whether the trust has made a distribution to a beneficiary in a particular reporting period (see page 17 of the OECD’s CRS implementation handbook).

Furthermore, if the Reporting NZFI maintains an account held by a passive NFE trust where the beneficiary(ies) are designated by characteristics or by class, they should obtain sufficient information concerning the beneficiary(ies) to satisfy them that they will be able to establish the identity of the beneficiary(ies) at the time of the pay-out or when the beneficiary(ies) intends to exercise vested rights (see page 199 of the CRS Commentary).

1.10 Options that a Reporting NZFI can adopt for CRS purposes

The CRS (and related Commentary) contain a number of “options” that Reporting NZFIs can adopt when carrying out these CRS due diligence procedures. The OECD’s CRS implementation handbook and answers to “Frequently Asked Questions” on its Automatic Exchange Portal (AEOI portal)¹⁵ also build on these options by setting out various procedures that Reporting NZFIs are able to adopt when carrying out their CRS obligations. The purpose of these options is to minimise compliance costs and provide for the practical implementation of the CRS.

Reporting NZFIs will generally be able to take advantage of any option set out in the CRS (and the related Commentary). Reporting NZFIs will also be able to adopt procedures endorsed by the OECD (including in the CRS implementation handbook and answers to “Frequently Asked Questions”) that are consistent with the CRS.

The only current exceptions to this general ability to rely on such options are:

- Reporting NZFIs will be required to adopt the reporting period ended 31 March.
- Reporting NZFIs will be required to adopt the “wider approach to due diligence”.
- Reporting NZFIs will not be able to adopt a transitional approach to the reporting of gross proceeds information (the reporting of gross proceeds information is explained further below).
- Reporting NZFIs will not be able to use the average balance or value method.

This guidance sets out further below the various CRS options that Reporting NZFIs will be able to take advantage of. These options are also summarised in Appendix 2.

1.11 Ability for a Reporting NZFI to use Anti-Money Laundering/Know Your Customer procedures and FATCA procedures for Common Reporting Standard purposes

The CRS due diligence and reporting procedures build largely off a number of key concepts, definitions, procedures, and types of reportable information, from the FATCA IGA. Some of these procedures also leverage off Anti-Money Laundering (AML)/Know your customer (KYC) procedures. This provides opportunities for a degree of regulatory alignment between CRS, FATCA, and AML/KYC procedures. This guidance highlights these areas. Appendix 1 also provides a summary of some of the areas where alignment can be achieved between the CRS and FATCA (and where alignment is not possible).

¹⁵ See the following link: <http://www.oecd.org/tax/automatic-exchange/>.

However, to the extent that there are any differences between CRS, FATCA and AML, the CRS itself (and the related Commentary), as implemented in New Zealand, will be the driver of CRS obligations.

1.12 Penalties and anti-avoidance

As noted above, the success of the CRS for AEOI as a global standard will depend on how effectively and consistently it is implemented around the world.

In this context, the OECD has recognised that the effectiveness of the CRS depends on implementing jurisdictions (such as New Zealand) having legal and administrative frameworks to monitor compliance and penalise non-compliance.

Therefore, there will be a penalty framework designed to penalise CRS non-compliance at various parts of the “information collection chain” – including the Reporting NZFI, the account holder and other persons connected with an account. The intention underpinning these provisions is to ensure that the required information is able to effectively flow from such persons to Reporting NZFIs and then to Inland Revenue for exchange.

Section IX(A)(1) of the CRS and page 208 of the CRS Commentary also require implementing jurisdictions to supplement their compliance framework with an effective anti-avoidance rule. This should be designed to prevent persons from adopting practices intended to circumvent the CRS due diligence and reporting procedures.

Accordingly, the New Zealand CRS implementing legislation includes an anti-avoidance rule that will apply to arrangements entered into by a person with a main purpose of avoiding CRS due diligence and reporting.

The penalties and avoidance framework is set out in detail further below in paragraphs 9 to 10 of this guidance.

2 Roadmap for the following guidance

This guidance will now, having set out some high-level background to the CRS for AEOI, outline some of the key CRS “building blocks” in more detail.

The purpose of this detail is to highlight the following points:

- **Who** needs to carry out CRS due diligence and reporting? – i.e. What determines when an entity is a Reporting NZFI?
- **What** does CRS due diligence and reporting involve? – i.e. What due diligence and reporting (to Inland Revenue) does a Reporting NZFI need to do?

The guidance will then set out how these principles apply in practice for particular types of entities.

For the purposes of the following guidance, the reference to “CRS” will be used to refer to the obligations that Reporting NZFIs will have to carry out due diligence and reporting on their financial accounts. The reference to “AEOI” will, in turn, be used to refer to the exchanging of information (which is facilitated by the CRS) between New Zealand (through Inland Revenue) and other jurisdictions.

3 Reporting NZFIs for CRS purposes

As noted above, Reporting NZFIs will have CRS due diligence and reporting obligations. This raises the following questions:

- When will an entity be a “financial institution”?
- When will a financial institution be a “NZFI”?
- When will a NZFI be a “Reporting NZFI”?

3.1 Types of financial institutions

An “entity” will be a financial institution based on the activities that it carries out or how it is managed.

It is important to note, for these purposes, that the CRS definition of “entity” covers both legal persons (for example, incorporated companies) and legal arrangements (for example, trusts). This means that such legal persons and legal arrangements can (depending on the circumstances) be financial institutions. However, the definition of “entity” does not cover individuals. This means that individuals cannot be financial institutions.

There are four types of financial institutions covered by the CRS:

- custodial institutions;
- depository institutions;
- investment entities; and
- Specified insurance companies.

These types of financial institutions are broadly similar to FATCA.

3.1.1 Custodial institution

The first type of financial institution is a custodial institution.

A custodial institution is an entity that holds, as a substantial portion of its business, financial assets for the account of others.

In this context, a “substantial portion” means at least 20% of the entity’s gross income is attributable to holding financial assets and providing related financial services in the shorter of:

- the three-year period ending immediately before the reportable period in which its status as a custodial institution is to be determined; or
- the period in which the entity has been in existence.

For the purposes of the following this will be referred to as the “specified period”.

In this context, a “financial asset” generally covers all assets (including, for example shares, bonds, and money) other than physical commodities or direct interests in real property.

Income attributable to holding financial assets and providing related financial services includes the following:

- custody, account maintenance and transfer fees;
- commissions and fees earned from executing and pricing securities transactions;
- income earned from extending credit to customers;
- income earned from contracts for differences and as the bid-ask spread of financial assets;
- fees for providing financial advice; and
- fees for providing clearance and settlement services.

Example: *Company A carries on a business of holding various financial assets (shares and bonds) as custodian for a unit trust (and performing related financial services for the trust). Company A has derived all of its income from such activities over the specified period. Company A is a custodial institution and, therefore, a financial institution.*

3.1.2 **Depository institution**

The second type of financial institution is a depository institution.

A depository institution is an entity that accepts deposits in the ordinary course of a banking or similar business.

An entity is considered to be engaged in a banking or similar business if, in the ordinary course of its business with customers, the entity accepts deposits or other similar investments of funds and regularly engages in one or more of the following activities:

- a makes personal, mortgage, industrial or other loans, or provides other extensions of credit;
- b purchases, sells, discounts or negotiates accounts receivable, instalment obligations, notes, drafts, cheques, bills of exchange, acceptances or other evidences of indebtedness;
- c issues letters of credit and negotiates drafts drawn thereunder;
- d provides trust or fiduciary services;
- e finances foreign exchange transactions; or
- f enters into, purchases, or disposes of finance leases or leased assets.

A depository institution will include, for example:

- a registered bank under the Reserve Bank Act 1989; and
- non-bank deposit takers supervised by the Reserve Bank, such as credit unions and mutual building societies.

3.1.3 Investment entity

The third type of financial institution is an investment entity.

Entities that typically meet this definition would include collective investment vehicles, mutual funds, exchange traded funds, private equity funds, hedge funds, venture capital funds, leveraged buy-out funds or any similar investment vehicle established with an investment strategy of investing, reinvesting or trading in financial assets. For example, this definition would generally capture unit trusts and managed investment schemes.

This list is not exhaustive. Entities such as family trusts may be investment entities, particularly if the trust's financial assets are managed by another financial institution. Fund managers and investment advisers will also often be investment entities.

There are two different sets of criteria for determining whether an entity is an investment entity. If an entity meets either of these it will generally be an investment entity.¹⁶

“Investment Entity” by virtue of primarily conducting an investment business for or on behalf of customers (in business investment entity)

An entity will be an investment entity if it primarily conducts as a business for or on behalf of customers one or more of a number of specified investment activities. This is different from the corresponding limb of the FATCA definition of investment entity, which does not contain such a “primarily” requirement.¹⁷

The activities that will bring the entity within the definition are:

- Trading in –
 - money market instruments (cheques, bills, certificates of deposit, derivatives, etc);
 - foreign exchange;
 - exchange, interest rate and index instruments;
 - transferable securities;
 - commodity futures.
- individual and collective portfolio management.
- otherwise investing, administering or managing funds or money on behalf of other persons.

For the purposes of this guidance such activities will be referred to as being “specified investment activities”.

An entity is regarded as “primarily conducting as a business” these specified investment activities for customers when at least half of its gross income (50% or more) is derived from such specified investment activities in the shorter of:

¹⁶ The one exception to this is if the entity is an active NFE because it meets the criteria in subparagraphs D(9)(d) through (g) of section VIII of the CRS. The definition of “active NFE” is set out in full in Appendix 4.

¹⁷ However, as explained in the FATCA/CRS comparison chart in Appendix 1, the FATCA U.S. Treasury Regulations definition of “investment entity” is in line with the CRS definition of “investment entity”. An entity can choose to adopt the U.S. Treasury Regulations definition of “investment entity” for FATCA purposes (in lieu of the corresponding definition in the FATCA IGA) in order to achieve alignment here.

- the three-year period ending immediately before the reportable period in which its status as an investment entity is to be determined; or
- the period in which the entity has been in existence.

For the purposes of this guidance this period will be referred to as the “specified period”.

Example 1: *Wide Trust is a New Zealand unit trust that carries on, as its business, collective portfolio management activities for customers. Wide Trust derived 80% of its income from such activities over the specified period.*

Is the Wide Trust an “in business” investment entity?

Yes: Wide Trust performed specified investment activities (collective portfolio management) for customers over the specified period. Wide Trust also derived its income “primarily” (50% or more) from such activities over that period. Therefore, Wide Trust is an “in business” investment entity. This means that Wide Trust is a financial institution.

Example 2: *A fund manager (an entity), among its various business operations, organises and manages a variety of funds, including Fund A, a fund that invests primarily in equities. The fund manager has earned all of its gross income over the specified period from providing such services. The fund manager hires an investment adviser (another entity) to provide advice and discretionary management of a portion of the financial assets held by Fund A. The investment adviser has earned all of its gross income over the specified period from providing such services.*

Is the fund manager an “in business” investment entity?

Yes: The fund manager performed specified investment activities (fund management) for customers over the *specified* period. The fund manager also derived its income “primarily” (50% or more) from such activities over that period. Therefore, the fund manager is an “in business” investment entity. This means that the fund manager is a financial institution.

Is the investment adviser an “in business” investment entity?

Yes: The investment adviser performed specified investment activities (fund management and related advice) for customers over the specified period. The investment adviser also derived its income “primarily” (50% or more) from such activities over that period. Therefore, the investment adviser is an “in business” investment entity. This means that the investment adviser is a financial institution.

“Investment Entity” by virtue of being managed by another financial institution (managed investment entity)

An entity will be a managed investment entity if:

- it derives its income “primarily” (at least half of its gross income – 50% or more) over the specified period from investing, reinvesting or trading in financial assets; and
- it is managed by another financial institution (other than a managed investment entity).

This is different from the corresponding limb of the FATCA IGA definition of “investment entity”, which does not contain a “primarily” requirement for the portion of the entity’s income from financial assets (50% or more) and where the relevant “manager” needs to be an investment entity.¹⁸

Meaning of “financial asset”

In this context, a “financial asset” generally covers all assets (including, for example shares, bonds, and money) **other than** physical commodities or direct interests in real property.

Meaning of “managed” by a financial institution

Furthermore, in this context, an entity will be regarded as “managed” by another financial institution (that performs specified investment activities for it) where that financial institution has discretionary authority to manage the entity’s assets (either in whole or in part.)

A financial institution trustee will generally manage a trust (in this regard).

A trustee may also outsource management of the trust’s assets (either in whole or part). For example, where the trustee of a family trust sets the parameters within which a financial institution fund manager can invest some or all of the trust’s assets, but gives the fund manager full discretion to invest within those parameters, the trust’s assets will be managed by the fund manager.

However, where the trustee retains full control over the investment decisions and the financial institution fund manager simply acts on instruction from the trustee without discretion, then the assets will not be managed by the fund manager.

Furthermore, if a financial institution merely provides advice to an entity, this will not be sufficient by itself to mean that the financial institution manages the entity. It is the discretionary authority to manage the entity’s assets (either in whole or in part) that is crucial.

An entity may be managed by a mix of other entities and individuals. If any of the persons involved in the management of the entity is a financial institution the entity will be regarded as managed by that financial institution. The residence of the financial institution manager is not relevant in this case. This part of the definition of “managed investment entity” simply requires that the manager is a financial institution (i.e. it does not specify where that institution needs to be resident).

¹⁸ However, as explained in the FATCA/CRS comparison chart in Appendix 1, the FATCA U.S. Treasury Regulations definition of “investment entity” is in line with the CRS definition. An entity can choose to adopt the U.S. Treasury Regulations definition for FATCA purposes (in lieu of the corresponding definition in the FATCA IGA) in order to achieve alignment between the relevant CRS and FATCA definitions of “investment entity”.

Example 3: A trust set up in New Zealand has the following investments:

- interest-bearing accounts with two different Reporting NZFI banks;
- shares and bonds under discretionary investment with a Reporting NZFI fund manager (a provider of discretionary investment management services – DIMS provider); and
- a rental property.

The trust derived 80% of its income from the accounts, share, and bonds (financial assets) over the specified period. The trust derived the other 20% of its income from the rental property.

Is the trust a “managed” investment entity?

Yes: The trust derives its income primarily (50% or more) from financial assets (the accounts, shares and bonds) over the specified period. The trust’s assets are also managed (in part) by a financial institution (the Reporting NZFI fund manager – DIMS provider). Therefore, the trust is a managed investment entity financial institution.

Example 4: Kea Trust has assets that consist of shares and bonds. The trust has two individual trustees, one of which has been empowered to manage the trust’s assets. Kea Trust does not outsource any management of financial assets to any financial institution. Kea Trust derives its income primarily from the shares and bonds.

Is the Kea Trust a “managed” investment entity?

No: The Kea Trust is managed by an individual trustee – an individual is not an “entity” under the CRS. It follows that the trustee cannot be a financial institution under the CRS. The trustee also does not outsource any management to any financial institution. Therefore, the trust is not a managed investment entity.

Application of principles to interests in real property

It is important to understand how these principles apply in the context of direct and indirect interests in real property.

If an entity’s gross income is primarily attributable to investing, reinvesting or trading in direct interests in real property, it will not be an investment entity **irrespective of whether it is managed**. This is because such interests are not financial assets.

Example 5: A family trust holds a direct interest in an investment property, which it lets out to generate rental income. The trust has no other assets. The property is managed by a property management company, which arranges tenants and management of rental income and expenditure.

Is the trust a “managed” investment entity?

No. The trust’s income is primarily attributable (50% or more) to investing in a direct interest in real property (not a financial asset). Therefore, the trust is not an investment entity.

However, this principle does not apply to **indirect interests** in real property.

Example 6: *A family trust holds shares and units in various property funds. The property funds, in turn, hold interests in real property.*

The family trust organises for a Reporting NZFI provider of discretionary investment management services to have authority to manage these shares and units. The Reporting NZFI has authority to buy and sell shares and units in such property funds, subject to a mandate that they have agreed with the trustee.

The family trust earns all of its income from investing in such shares/units over the specified period (i.e. receiving dividends from those investments).

Is the trust a “managed” investment entity?

Yes. The trust’s income is primarily attributable to the shares and units (financial assets). The trust is also managed by the Reporting NZFI. Therefore, the trust is a managed investment entity financial institution.

3.1.4 Specified insurance company

The fourth type of financial institution is a specified insurance company.

3.1.4.1 What is a Specified Insurance Company?

For CRS purposes, an entity that is an insurance company (including its holding company) is treated as a “specified insurance company” if it:¹⁹

- issues investment products that are classified as cash value insurance contracts or annuity contracts; or
- makes payments under the terms and conditions of these contracts.

These types of insurance and annuity contracts usually include an investment component.

In the New Zealand context and the CRS, an “insurance company” is an entity:

- that is regulated as an insurance business under the laws of New Zealand;

¹⁹ See CRS section VIII.A(8) definition of “Specified Insurance Company”.

- the gross income of which (for example, gross premiums and gross investment income) arising from insurance, reinsurance, and annuity contracts for the immediately preceding period exceeds 50% of total gross income for such period; or
- the aggregate value of the assets of which associated insurance, reinsurance and annuity contracts at any time during the immediately preceding period exceeds 50% of total assets at any time during that period.

An insurance company that only provides general insurance²⁰ or term life insurance²¹ is usually not a specified insurance company. Neither are reinsurance companies that only provide indemnity reinsurance contracts. These companies are treated instead as non-financial entities.

Most life insurance companies are generally considered to be specified insurance companies. However, entities that do not issue cash value insurance contracts or annuity contracts, and are not obligated to make payments with respect to them, such as most non-life insurance companies, most holding companies of insurance companies and insurance brokers, are usually not specified insurance companies.²²

An insurance broker entity that sells cash value insurance contracts or annuity contracts on behalf of an insurance company (and is part of the payment chain), will not be a specified insurance company unless it is obliged to make payments to the account holder under the terms of these contracts.

Additionally, the reserving activities of an insurance company do not, themselves, cause it to become another type of financial institution, such as a custodial institution, a depository institution, or an investment entity.

As noted above, an insurance company (including its holding company) is treated as a “specified insurance company” if it:²³

- issues investment products that are classified as cash value insurance contracts or annuity contracts; or
- makes payments under the terms and conditions of these contracts.

²⁰ *General insurance* is typically any insurance that is not life insurance (other than term life policies), does not include any investment component, and provides payments for economic loss from particular adverse events. For example: business or commercial, health, home and home contents, income protection, motor vehicle, public liability, travel, etc.

²¹ The CRS includes as an Excluded Account certain term life insurance contracts that meet the conditions specified in CRS section VIII.C(17)(c). See also the CRS Commentary on Section VIII, paragraphs 86 and 91, pages 184 to 185 which use the wording “term life insurance contract”.

²² See CRS Commentary, paragraph 28 on page 165.

²³ See CRS section VIII.A(8) definition of “Specified Insurance Company”.

Therefore, there are two key questions that feed into what comprises a specified insurance company:

- what constitutes a “cash value insurance contract”; and
- what constitutes an “annuity contract”?

3.1.4.2 *What is a “cash value insurance contract”?*

Definition of “Cash Value Insurance Contract”

The term “cash value insurance contract” is defined to mean an insurance contract (other than an indemnity reinsurance contract between two insurance companies) that has a cash value.²⁴

A cash value insurance contract is an insurance contract where the policyholder is entitled to receive payment on surrender or termination of the contract.

Definition of “Insurance Contract”

The CRS defines the term “insurance contract”²⁵ as meaning a contract (other than an annuity contract) under which the issuer agrees to pay an amount upon the occurrence of a specified contingency involving mortality, morbidity, accident, liability or property risk.

Definition of “Cash Value”

The CRS defines “Cash Value”²⁶ as the greater of:

- the amount that the policyholder is entitled to receive on the termination or surrender of the contract without reduction for any surrender charge or loans outstanding against the policy. For example, when the policyholder receives an annual statement of the value of the policy that will be the cash value in that year; and
- the amount the policyholder can borrow against according to the policy. Note that the policyholder does not need to have pledged the account as collateral for borrowing for this second test to apply. It is the amount that the policyholder could expect to borrow against the cash value insurance contract if they chose to use it as collateral for a loan.

²⁴ CRS section VIII.C(7); CRS Commentary, pages 179 to 181.

²⁵ CRS section VIII.C(5).

²⁶ CRS section VIII.C(8).

However, the term “Cash Value” excludes any amount payable under an insurance contract:

- solely by reason of the death of an individual insured under a life insurance contract; or
- as a personal injury or sickness benefit or other benefit providing indemnification of an economic loss incurred upon the occurrence of the event insured against; or
- as a refund of a previously paid premium (less cost of insurance charges whether or not actually imposed) under an insurance contract (other than an investment-linked life insurance or annuity contract) due to cancellation or termination of the contract, decrease in risk exposure during the effective period of the contract, or arising from the correction of a posting or similar error with regard to the premium for the contract; or
- as a policyholder dividend (other than a termination dividend) provided that the dividend relates to an insurance contract under which the only benefits payable are described in subparagraph C(8)(b); or
- as a return of an advance premium or premium deposit for an insurance contract for which the premium is payable at least annually if the amount of the advance premium or premium deposit does not exceed the next annual premium that will be payable under the contract.

Excluded from the term “Cash Value” is also an amount payable under an insurance contract as a personal injury or sickness benefit, or other benefit, providing indemnification of an economic loss incurred upon the occurrence of the event insured against.²⁷ Such “other benefit” does not include any benefit payable under an “investment-linked life insurance or annuity contract”.

A policyholder dividend that satisfies all the requirements described in subparagraph C(8)(d) of Section VIII of the CRS (per above), and relating to a personal injury or sickness insurance policy, is also excluded from the term “Cash Value”.

A “policyholder dividend” is any dividend or similar distribution to policyholders in their capacity as such, including:

- an amount paid or credited (including as an increase in benefits) if the amount is not fixed in the contract but rather depends on the experience of the insurance company or the discretion of management;

²⁷ CRS section VIII.C(8)(b).

- a reduction in the premium that, but for the reduction, would have been required to be paid; and
- an experience-rated refund or credit based solely upon the claims experience of the contract or group involved.

A policyholder dividend cannot exceed the premiums previously paid for the contract, less the sum of the cost of insurance and expense changes (whether or not actually imposed) during the contract's existence and the aggregate amount of any prior dividends paid or credited according to the contract.

A policyholder dividend does not include any amount that is in the nature of interest that is paid or credited to a contract holder to the extent that the amount exceeds the minimum rate of interest required to be credited with respect to contract values under local law.

The CRS provides a further exclusion from cash value in relation to a return of an advance premium or premium deposit for an insurance contract for which the premium is payable at least annually, if the amount of the advance premium or premium deposit does not exceed the next annual premium that will be payable under the contract.

Investment-linked insurance contracts

Investment-linked insurance contracts are treated as cash value insurance contracts for CRS purposes. An “investment-linked insurance contract” means an insurance contract under which benefits, premiums, or the period of coverage are adjusted to reflect the investment return or market value of assets associated with the contract.²⁸

Insurance wrapper products

Insurance wrapper products, such as private placement life insurance contracts, are generally considered to be cash value insurance contracts. An “insurance wrapper product” usually includes an insurance contract, the assets of which are:

- held in an account maintained by a financial institution; and
- managed in accordance with a personalised investment strategy or under the control or influence of the policyholder, owner or beneficiary of the contract.

²⁸ CRS Commentary, paragraph 76 on page 180.

3.1.4.3 *What is an “annuity contract”?*

The term “Annuity Contract”²⁹ is defined in the CRS to mean a contract under which the issuer agrees to make payments for a period of time determined in whole or in part by reference to the life expectancy of one or more individuals.

The term “Annuity Contract”, also includes a contract that is considered to be an annuity contract in accordance with the law, regulation or practice of the jurisdiction in which the contract was issued and under which the issuer agrees to make payments for a term of years.

For CRS purposes, the following are not considered to be reportable annuity contracts:

- certain pension annuities;
- certain immediate life annuities;
- reinsurance of annuity contracts between insurance companies; and
- periodic payment orders.

3.2 **Circumstances when a financial institution will be a “New Zealand Financial Institution”**

This then raises the question of when such a financial institution will have a sufficient connection to New Zealand to be a “NZFI”.

A financial institution will be a “NZFI” for CRS purposes **if** it is a New Zealand resident (excluding any branch located outside New Zealand) **or** has a New Zealand branch.

The general rule is that a financial institution will be “resident” in New Zealand for CRS purposes and, be a NZFI, if it is tax-resident in New Zealand.

However, there are special rules that apply for trusts and entities (other than trusts) that do not have a tax residency.

In the case of a financial institution trust (irrespective of whether it is resident for tax purposes in New Zealand), the trust will generally be “resident” in New Zealand for CRS purposes, and, therefore an NZFI, if it has one or more trustees that are tax-resident in New Zealand. However, the exception to this is if the trust is tax-resident in another Participating Jurisdiction and reports all the information required to be reported according to the CRS (with respect to reportable accounts maintained by the trust) to that jurisdiction because it is a tax resident in that jurisdiction.

²⁹ CRS section VIII.C(6).

Where a financial institution (other than a trust) does not have a tax residence (for example, a financial institution partnership may be treated as fiscally transparent), it will be resident in New Zealand and, therefore, be an NZFI, if:

- it is incorporated under the laws of New Zealand;
- it has its place of management (including effective management) in New Zealand; or
- it is subject to financial supervision in New Zealand.

Where such a financial institution (other than a trust) is resident in two or more participating jurisdictions, the financial institution will be subject to the CRS due diligence and reporting obligations of the jurisdiction in which it maintains the financial accounts.³⁰

A NZFI is generally able to adopt these same residency tests for FATCA purposes as well. This is also summarised in the CRS/FATCA comparison chart in Appendix 1.

There are also special rules that apply in determining whether a financial institution has a branch in a participating jurisdiction (such as New Zealand). In this respect, a “branch” for CRS purposes is a unit, business or office of a financial institution that is treated as a branch under the regulatory regime of a jurisdiction or that is otherwise regulated under the laws of a jurisdiction as separate from other offices, units or branches of the financial institution. A branch includes a unit, business or office of an institution located in a jurisdiction in which the financial institution is resident, and a unit, business or office of a financial institution located in the jurisdiction in which the financial institution is created or organised. All units, businesses or offices of an institution in a single jurisdiction should be treated as a single branch.

3.3 Circumstances when a NZFI will be a “Reporting New Zealand Financial Institution”

A NZFI will be a “Reporting NZFI” unless it is a “Non-Reporting NZFI”. The following guidance outlines the circumstances when a NZFI will be a Non-Reporting NZFI.

3.4 Circumstances when a NZFI will be a “Non-Reporting New Zealand Financial Institution”

As explained below, the CRS explicitly defines various types of financial institutions as being non-reporting financial institutions.

The CRS also provides scope for implementing jurisdictions (such as New Zealand) to define **other** types of financial institution as being a non-reporting financial institution (i.e. non-reporting NZFIs in the context of New Zealand) if certain specified criteria are met. The Commissioner of Inland

³⁰ This is assuming that the financial institution is a Reporting Financial Institution.

Revenue will determine what **other** types of financial institutions are “non-reporting New Zealand financial institutions” (in this regard) and publish a corresponding list of these institutions.

This guidance sets out the types of financial institutions that the CRS specifically defines as being “non-reporting financial institutions”.

It also sets out the criteria that will be used to determine whether any **other** types of financial institutions should also be treated as non-reporting financial institutions.

3.5 Financial institutions that the CRS defines as being “Non-Reporting Financial Institutions”

Section VIII(B)(1) of the CRS defines a “non-reporting financial institution” as meaning any financial institution that comes within any of the following:

- a) a Governmental Entity, International Organisation or Central Bank, other than with respect to a payment that is derived from an obligation held in connection with a commercial financial activity of a type engaged in by a Specified Insurance Company, Custodial Institution or Depository Institution;
- b) a Broad Participation Retirement Fund; a Narrow Participation Retirement Fund, a Pension Fund of a Governmental Entity, International Organisation or Central Bank or a Qualified Credit Card Issuer;
- c) any other Entity that presents a low risk of being used to evade tax, has substantially similar characteristics to any of the Entities described in subparagraphs B(1)(a) and (b), and is defined in domestic law as a Non-Reporting Financial Institution, provided that the status of such Entity as a Non-Reporting Financial Institution does not frustrate the purposes of the Common Reporting Standard;
- d) an Exempt Collective Investment Vehicle; or
- e) a trust to the extent that the trustee of the trust is a Reporting Financial Institution and reports all information required to be reported pursuant to Section I with respect to all Reportable Accounts of the trust (known as “trustee documented trusts”).

A full list of the requirements that must be satisfied for these entities to be treated as Non-reporting Financial Institutions is set out in Appendix 7.

It is important at this point to briefly outline the trustee documented trust category of non-reporting NZFI set out in section VIII(B)(1)(e) of the CRS. This category is likely to be particularly relevant to NZFI trusts that are managed investment entities and have financial institution corporate trustees.

The trustee documented trust category provides that a NZFI trust will be a non-reporting NZFI to the extent that the trustee of the trust is a reporting financial institution and reports all of the information required to be reported with respect to all reportable accounts of the trust.

However, it is important to note that if the trustee of a Trustee-Documented Trust does not comply with these obligations the trust will, therefore, not be able to benefit from this exclusion and will be a reporting NZFI. In other words, where a trustee fails to fulfil any of these obligations, the trust will be responsible for completing due diligence or reporting as a reporting NZFI. Therefore, essentially, the trust will be reliant on the trustee complying with its obligations (on behalf of the trust) in order for the trust itself to have complied with the CRS. These points are explained at page 174 of the CRS Commentary.

The scope of the various types of “non-reporting financial institutions” is explained in pages 166 to 174 of the CRS Commentary. Readers should refer to those pages of the Commentary for further context.

3.6 Financial institutions that can be treated by implementing jurisdictions as “Non-Reporting Financial Institutions”

The CRS **also** provides in section VIII(B)(1)(c) that a “Participating Jurisdiction” (such as New Zealand) can treat a financial institution as being a “non-reporting financial institution” if:

- the financial institution presents a low risk of being used to evade tax;
- the financial institution has substantially similar characteristics to any of the types of institutions described in section VIII(B)(1)(a) or (b): Government entity, International Organisation, Central Bank, Broad Participation Retirement Fund, Narrow Participation Retirement Fund, Pension fund of a government entity (or International Organisation or Central Bank), or a Qualified Credit Card Issuer;
- the financial institution is defined in domestic law as being a “non-reporting financial institution” (i.e. in accordance with a legislative framework that allows the financial institution to be listed as a “non-reporting financial institution”); and
- defining the financial institution as a non-reporting financial institution does not frustrate the purposes of the CRS.

The expectation is that participating jurisdictions (such as New Zealand) will make their list of “non-reporting financial institutions” publicly available and that each jurisdiction will have a single list of non-reporting financial institutions, as opposed to different lists for different participating jurisdictions.

NZFIs are able to provide submissions (by 31 January 2017) to be considered for being treated as Non-Reporting NZFIs under this provision. These submissions should outline why the NZFI satisfies all of the bullet points outlined above.

Pages 170 to 173 of the CRS Commentary provide the following context on how this exemption is intended to apply. This should assist NZFIs that intend to make a submission that they should be treated as Non-Reporting NZFIs.

3.6.1 The financial institution presents a low risk of being used to evade tax

The first requirement described in subparagraph B(1)(c) of Section VIII of the CRS is that the financial institution presents a low risk of being used to evade tax.

Factors that may be considered to determine such a risk include:

- Low-risk factors:
 - the financial institution is subject to regulation; and
 - information reporting by the financial institution to the tax authorities is required.
- High-risk factors:
 - the type of financial institution is not subject to AML/KYC Procedures; and
 - the type of financial institution is allowed to issue shares in bearer form and is not subject to effective measures implementing the Financial Action Task Force Recommendations with respect to transparency and beneficial ownership of legal persons, and
 - the type of financial institution is promoted as a tax minimisation vehicle.

3.6.2 The financial institution has substantially similar characteristics to any of types of institutions described in section VIII(B)(1)(a) or (b) of the Common Reporting Standard

The second requirement described in subparagraph B(1)(c) of section VIII of the CRS is that the financial institution has substantially similar characteristics to any of the following types of financial institutions described in subparagraphs B(1)(a) or (b) of section VIII of the CRS:

- Government Entity, International Organisation, Central Bank;
- Broad Participation Retirement Fund;

- Narrow Participation Retirement Fund;
- A pension fund of a Government Entity, International Organisation, Central Bank; or
- Qualified Credit Card Issuer.

This requirement **cannot be used solely to eliminate a specific element of a description**. Each jurisdiction may evaluate the application of this requirement to a type of financial institution that does not satisfy all the requirements of a particular description listed in subparagraphs B(1)(a) or (b). As part of such evaluation, a jurisdiction (such as New Zealand) must identify which requirements are satisfied and which are not satisfied, and with respect to the requirements that are not satisfied, must identify the existence of a **substitute requirement that provides equivalent assurance** that the relevant type of financial institution presents a low-risk of tax evasion.

Page 172 of the CRS Commentary sets out (as a guideline) the following examples to illustrate the points that will be relevant when determining whether a financial institution should be treated as a non-reporting financial institution under subparagraph B(1)(c) of section VIII of the CRS. This should assist NZFIs that intend to make a submission that they should be treated as Non-Reporting NZFIs:

Example 1 (Non-profit organisation): A type of non-profit organisation that is a financial institution does not satisfy all the requirements of any particular description listed in subparagraphs B(1)(a) or (b). This type of non-reporting financial institution cannot be defined in domestic law as a non-reporting financial institution solely because it is a non-profit organisation.

Example 2 (Retirement fund also for self-employed individuals): A type of retirement fund that is a Financial Institution satisfies all the requirements listed in subparagraph B(5). However, under the laws of the jurisdiction in which the fund is established or operates, it is required to also provide benefits to beneficiaries that are self-employed individuals. Because there is an overall substitute requirement that provides equivalent assurance that the fund presents a low-risk of tax evasion, this type of financial institution could be defined in domestic law as a Non-Reporting Financial Institution.

Example 3 (Unlimited retirement fund): A type of retirement fund that is a Financial Institution satisfies all the requirements listed in subparagraph B(6), apart from the one contained in subparagraph B(6)(c) (i.e. employee and employer contributions are not limited). However, the tax relief associated to the employee and employer contributions is limited by reference to earned income and compensation of the employee, respectively. Because there is a substitute requirement that provides equivalent assurance that the fund presents a low risk of tax evasion, this type of financial institution could be defined in domestic law as a Non-Reporting Financial Institution.

Example 4 (Investment vehicle exclusively for retirement funds): A type of investment vehicle that is a Financial Institution is established exclusively to earn income for the benefit of one or more retirement or pension funds described in subparagraphs B(5) through (7), or retirement or pension accounts described in subparagraph C(17)(a). Because all the income of the vehicle inures to the

benefit of Non- Reporting Financial Institutions or excluded accounts, and there is an overall, substitute requirement that provides equivalent assurance that the vehicle presents a low risk of tax evasion, this type of financial institution could be defined in domestic law as a Non- Reporting Financial Institution.

4 What “financial accounts” are subject to CRS due diligence?

This guidance has outlined the key “building blocks” that determine **when** an entity is a Reporting NZFI. The guidance now sets out the obligations that these Reporting NZFIs will have.

Reporting NZFIs need to carry out due diligence on the “financial accounts” they “maintain” to identify accounts held (and/or, in the case of passive non-financial entities, controlled) by relevant foreign tax residents.

This then raises the following questions:

- what constitutes a “financial account”; and
- when will a Reporting NZFI “maintain” a financial account?

The term “financial account” includes:³¹

- Depository Accounts;
- Annuity Contracts;
- Cash Value Insurance Contracts;
- Custodial Accounts; and
- Equity and debt interest in certain financial institutions (generally limited to investment entities).

A financial account does not, however, include any account that is an excluded account.

A financial account will be “maintained” by a Reporting NZFI in the following circumstances:

- in the case of a depository account, by the Reporting NZFI that is obligated to make payments with respect to the account (excluding the agent of a Reporting NZFI);

³¹ This is subject to a number of exclusions that are outlined below.

- in the case of a custodial account, by the Reporting NZFI that holds custody over the assets in the account (including a Reporting NZFI that holds assets in street name (i.e. in the broker’s name for an account holder in such institution));
- in the case of a cash value insurance contract or an Annuity Contract, by the Reporting NZFI that is obligated to make payments with respect to the contract; and
- in the case of any equity or debt interest in a Reporting NZFI that constitutes a financial account, by that institution.

This guidance now provides a high level outline of the various types of financial accounts. This will assist Reporting NZFIs that maintain such accounts to determine what they need to carry out due diligence on.

4.1 Depository account

A depository account is defined in paragraph C(2) of section VIII of the CRS as including any commercial, checking, savings, time or thrift account, or an account that is evidenced by a certificate of deposit, thrift certificate, investment certificate, certificate of indebtedness or other similar instrument maintained by a Reporting NZFI in the ordinary course of banking or similar business. It also includes an amount held by an insurance company pursuant to a guaranteed investment contract or similar agreement to pay or credit interest thereon.

4.2 Annuity contract

Annuity contracts will generally be financial accounts.

An “annuity contract” is defined in paragraph C(6) of section VIII of the CRS as meaning a contract under which the issuer agrees to make payments for a period of time determined in whole or in part by reference to the life expectancy of one or more individuals. It also includes a contract that is considered to be an annuity contract in accordance with the law, regulation or practice of the jurisdiction in which the contract was issued and under which the issuer agrees to make payments for a term of years.

However, an annuity contract is not a financial account if it is a non-investment linked, non-transferable immediate life annuity issued to an individual monetising a pension or disability benefit provided under an excluded account.³²

³² The meaning of “excluded account” is outlined in detail further below in paragraph 4.6.

4.3 Cash value insurance contract

A “cash value insurance contract” will be a financial account. It is defined in paragraph C(7) of section VIII of the CRS as meaning an insurance contract (other than an indemnity reinsurance between two insurance companies) that has a cash value.

There are three key elements to the definition of “cash value insurance contract”:

- insurance contract;
- cash value insurance contract; and
- cash value.

“insurance contract” is defined in the CRS in paragraph C(5) as a contract (other than an annuity contract) under which the issuer agrees to pay an amount upon the occurrence of a specified contingency involving mortality, morbidity, accident, liability or risk.

Under paragraph C(7) of the CRS a “cash value insurance contract” means an insurance contract (other than an indemnity reinsurance contract between two insurance companies) **that has a cash value**.

A “cash value” is the greater of the amount a policy holder is entitled to receive upon surrender of the policy, or the amount the policyholder can borrow under it, but **does not include** an amount payable:

- solely upon the death of the insured under a life insurance contract;
- as a personal injury or sickness benefit or other benefit providing indemnification of an economic loss incurred upon the occurrence of an event insured against;
- as a refund of a previously paid premium due to cancellation or termination of the contract, decrease in risk exposure, or arising from the correction of a posting or similar error with regard to the premium for the contract;
- as a policyholder dividend (other than a termination dividend) provided it relates to an insurance contract under which the only benefits payable are for a personal injury or sickness benefit, or other benefit providing indemnification of an economic loss incurred upon the occurrence of an event insured against; or

- as a return of an advance premium or premium deposit for which the premium is paid at least annually if the amount of the advance premium or premium deposit does not exceed the next annual premium payable.

4.4 Custodial account

A “Custodial Account” is defined in paragraph C(3) of section VIII of the CRS as an account (other than an insurance contract or annuity contract) for the benefit of another person that holds one or more financial assets. As noted above, a financial asset generally covers all assets (including, for example shares, bonds and money) other than physical commodities or direct interests in real property.

4.5 Equity or debt interest

4.5.1 Equity or debt interest in an investment entity

A debt or equity interest in an investment entity is generally considered a financial account. This then raises the following questions:

- what constitutes an equity interest;
- what constitutes a debt interest; and
- when is an equity or debt interest in an investment entity a financial account?

4.5.1.1 *What is an “equity interest”?*

In the case of a partnership that is a financial institution, the term “equity interest” means a capital or profits interest in the partnership.

In the case of a trust that is a financial institution, an “equity interest” is considered to be held by any person treated as a settlor or beneficiary of all or a portion of the trust, or any other natural person exercising ultimate effective control over the trust (see page 178, paragraph 69 of the CRS Commentary). The following points are relevant in this regard:

- If a settlor or beneficiary is an entity the relevant equity interest will be held by the controlling persons of that entity.
- A person will be treated as being a beneficiary of a trust if they have the right to receive (directly or indirectly) a mandatory or discretionary distribution from the trust (see page 178, paragraph 69 of the CRS Commentary). However, a discretionary beneficiary will only be

treated as having an equity interest if a distribution is paid or payable in the period (i.e. the person receives a distribution in a period).³³

- The reference to “other natural person exercising ultimate effective control over the trust” would, at a minimum, include the trustee.

The same criteria for a trust that is a financial institution are applicable for a legal arrangement that is equivalent or similar to a trust, or a foundation that is a financial institution.

4.5.1.2 *What is a debt interest?*

A debt interest would cover amounts loaned to a financial institution and securities and bonds that are not equity interests.

When is an equity or debt interest in an investment entity a financial account?

Equity or debt interests in an investment entity will generally be financial accounts (of that entity). It is important to note that the entity does not need to *solely* be an investment entity (i.e. it could come within another category of financial institution as well). This is different from FATCA, which requires that the financial institution is *solely* an investment entity in order for such an interest to be a financial account.

Equity or debt interests in an investment entity would include, for example, interests in an entity:

- that is a professionally managed investment entity; or
- that holds itself out as a collective investment vehicle, mutual fund, exchange traded fund, private equity fund, hedge fund, venture capital fund, leveraged buyout fund or any similar investment vehicle established with an investment strategy or investing, reinvesting, or trading in financial assets.

However, the definition of “Financial Account” does not include any equity or debt interest in an entity that is an investment entity solely because it (i) renders investment advice to, and acts on behalf of, or (ii) manages portfolios for, and acts on behalf of, a customer for the purpose of investing, managing or administering financial assets deposited in the name of the customer with a financial institution other than that entity.

³³ The OECD has confirmed in an answer to a “Frequently Asked Question” that if a discretionary beneficiary receives a distribution in a given period, but not in a following period, the absence of a distribution in the following year should generally not constitute an account closure. However, the exception to this is if the beneficiary is permanently excluded from receiving future distributions from the trust (i.e. that would constitute closure of the account).

Example: If Investment Entity A (a fund manager) merely facilitated investing a customer's funds in the customer's name with an investment entity unit trust the customer would not have an equity interest in Investment Entity A. Instead, the customer would have an equity interest in the unit trust. This means that it would be the unit trust that carries out due diligence on the customer.

4.5.2 Equity or debt interest in another type of financial institution

An equity or debt interest in any other type of financial institution will also be a financial account if the interest was established with a purpose of avoiding reporting under the general CRS reporting requirements.

4.6 What accounts are excluded from being “financial accounts”?

As noted above, Reporting NZFIs need to carry out due diligence on financial accounts they maintain. However, a financial account does not include an account that is an excluded account.

This raises the question of what accounts are “excluded accounts” for these purposes, and therefore, excluded from CRS due diligence.

4.6.1 Accounts that the CRS explicitly defines as “excluded accounts”

The CRS defines “excluded account” as meaning the following accounts in section VIII(C)(17(a) to (f):

- retirement and pension accounts;
- non-retirement tax-favoured accounts;
- term life insurance contracts;
- estate accounts;
- escrow accounts; and
- depository accounts due to non-returned overpayments.

The scope of these “excluded accounts” is explained in pages 184 to 187 of the CRS Commentary. Readers should refer to those pages of the Commentary for further background.

A full list of the requirements that must be satisfied for these accounts to be excluded is also set out in Appendix 5.

4.6.2 Accounts that can be treated as “Excluded Accounts”

The CRS **also** provides in section VIII(C)(17)(g) that an implementing jurisdiction (such as New Zealand) can treat an account as an excluded account if:

- The account presents a low risk of being used to evade tax.
- The account has substantially similar characteristics to any of types of accounts that are explicitly defined in the CRS as “excluded accounts” (see above).
- The account is defined in domestic law as an excluded account (i.e. in accordance with a legislative framework that allows the account to be listed as an excluded account).
- Defining the account as an “excluded account” would not frustrate the purposes of the CRS.

The Commissioner of Inland Revenue will determine what types of accounts are “excluded accounts” (in this regard).

The expectation is that jurisdictions will make their list of excluded accounts publicly available (just like the list of non-reporting financial institutions) and that they will have a single list of excluded accounts, as opposed to different lists for different Participating Jurisdictions. Therefore, Inland Revenue will produce a single list of excluded accounts.

Reporting NZFIs are able to make submissions (by 31 January 2017) for their accounts to be treated as excluded accounts under this provision. Submitters should outline why the account satisfies all of the bullet points outlined above.

The CRS Commentary also provides the following context to the criteria that will need to be satisfied before an account is treated as an “excluded account” (in this way) by an implementing jurisdiction (such as New Zealand). Submitters should consider these points when they are preparing their submission.

4.6.2.1 *The account presents a low risk of being used to evade tax*

The first requirement for an account to be treated as an excluded account under Section VIII(C)(17)(g) of the CRS is that the account presents a low risk of being used to evade tax.

The CRS Commentary provides that the following factors may be used when considering whether an account presents a low risk of being used to evade tax:

- Low-risk factors:
 - the account is subject to regulation;
 - the account is tax-favoured;

- information reporting to the tax authorities is required with respect to the account;
 - contributions or the associated tax relief are limited; and
 - the type of account provides appropriately defined and limited services to certain types of customers, so as to increase access for financial inclusion purposes.
- High-risk factors:
 - the type of account is not subject to AML/KYC Procedures; and
 - the type of account is promoted as a tax minimisation vehicle.

The account has substantially similar characteristics to any of types of accounts that are explicitly defined in the CRS as “excluded accounts” in section VIII(c)(17)(a) to (f).

The second requirement for such an account being treated as an “excluded account” is that the account has substantially similar characteristics to any types of accounts that are explicitly defined in section VIII(C)(17)(a) to (f) of the CRS as “excluded accounts”.

The CRS Commentary also provides that the requirement that the account has substantially similar characteristics to any types of accounts that are explicitly defined in the CRS as “excluded accounts” **cannot be used solely to eliminate a specific element of a description.**

Each jurisdiction (including New Zealand) may evaluate the application of this requirement to a type of account that does not satisfy all the requirements of an explicitly “excluded account” in section VIII(C)(17)(a) to (f) of the CRS. As part of the evaluation, a jurisdiction (including New Zealand) must identify which requirements are satisfied and which are not satisfied, and with respect to the requirements that are not satisfied, must identify the existence of a **substitute requirement** that provides equivalent assurance that the relevant type of account presents a low risk of tax evasion.

Page 189 of the CRS Commentary sets out (as a guideline) the following examples to illustrate the points that will be relevant when determining whether an account could be treated as “excluded accounts” under section VIII(C)(17)(g). Submitters should consider these examples for further context.

Example 1 (Unlimited annuity contract): *A type of annuity contract satisfies all the requirements listed in subparagraph C(17)(a), apart from the one contained in subparagraph C(17)(a)(v) (i.e. contributions are not limited). However, the applicable penalties apply to all withdrawals made before reaching a specified retirement age and include taxing the contributions that were previously tax-favoured with a high flat-rate surtax (e.g. 60%). Because there is a substitute requirement that provides equivalent assurance that the account presents a low risk of tax evasion, this type of account could be defined in domestic law as an excluded account.*

Example 2 (Unlimited savings account): A type of savings account satisfies all the requirements listed in subparagraph C(17)(b), apart from the one contained in subparagraph C(17)(b)(iv) (i.e. contributions are not limited). However, the tax relief associated to the contributions is limited by reference to an indexed amount. Because there is a substitute requirement that provides equivalent assurance that the account presents a low risk of tax evasion, this type of account could be defined in domestic law as an excluded account.

Example 3 (Micro cash value insurance contract): A type of cash value insurance contract only satisfies the requirement described in subparagraph C(17)(b)(i) (i.e. it is regulated as a savings vehicle for purposes other than for retirement). However, under the micro insurance regulations of the Participating Jurisdiction, (i) it is targeted to individuals (or groups of individuals) that are below the poverty line (e.g. living on less than USD 1.25 per person per day in 2005 US dollars), and (ii) the total gross amount payable under the contract cannot exceed USD 7,000. Because there is an overall, substitute requirement that provides equivalent assurance that the account presents a low-risk of tax evasion, this type of account could be defined in domestic law as an excluded account.

Example 4 (Social welfare account): A type of savings account only satisfies the requirement described in subparagraph C(17)(b)(i) (i.e. it is regulated as a savings vehicle for purposes other than for retirement). However, under the social welfare regulations of the Participating Jurisdiction, it can solely be held by an individual that (i) is below the poverty line (e.g. living on less than USD 1.25 per person per day in 2005 US dollars) or otherwise low-income, and (ii) is participating in a social welfare programme. Because there is an overall substitute requirement that provides equivalent assurance that the account presents a low risk of tax evasion, this type of account could be defined in domestic law as an excluded account.

Example 5 (Financial inclusion account): A type of depository account only satisfies the requirements described in subparagraph C(17)(b)(i) and (iv) (i.e. it is regulated as a savings vehicle for purposes other than for retirement, and annual contributions are limited). However, under the financial regulations of the Participating Jurisdiction, (i) it provides defined and limited services to individuals, so as to increase access for financial inclusion purposes; (ii) monthly deposits cannot exceed USD 1,250 (excluding deposits by an authorised government body under a social welfare programme); and (iii) financial institutions have been allowed to apply simplified AML/ KYC Procedures with respect to this type of account, since it has been regarded as having a lower money laundering and terrorist financing risk in accordance with the Financial Action Task Force Recommendations. Because there are overall substitute requirements that provide equivalent assurance that the account presents a low risk of tax evasion, this type of account could be defined in domestic law as an excluded account.

Example 6 (Dormant account): A type of depository account (i) with an annual balance that does not exceed USD 1,000, (ii) that is a dormant account (see paragraph 9 of the CRS Commentary on section III).

Because there are overall substitute requirements that provide equivalent assurance that the account presents a low risk of tax evasion, this type of account could be defined in domestic law as an excluded account during the dormancy period.

5 What does the CRS “due diligence” process involve?

This guidance has set out above:

- **when** an entity will be a Reporting NZFI with CRS due diligence and reporting obligations; and
- **what** financial accounts will be in scope for such CRS due diligence.

It now outlines **what** the CRS due diligence process will involve.

5.1 High level overview of the CRS due diligence process

The CRS requires that Reporting NZFIs carry out due diligence on their financial accounts to identify accounts held (and/or, in the case of passive NFEs, controlled) by relevant foreign tax residents.³⁴

Reporting NZFIs will need to use different due diligence procedures (in this regard) depending on when the financial account is opened and whether the account is held by an individual or entity.

The following is a high-level summary of these different due diligence procedures. A more detailed outline is provided further below:

- Pre-existing individual accounts: Accounts held by an individual that are open as of 30 June 2017. These accounts are, in turn, split into the following categories:
 - lower-value accounts with a balance or value of less than USD 1,000,000; and
 - high-value accounts with a balance or value of USD 1,000,000 or more. As explained further below, Reporting NZFIs will be required to carry out enhanced due diligence on these high-value accounts.

³⁴ However, there are some special rules that apply here for identifying such foreign tax residents in the context of certain insurance products that provide death benefits to beneficiaries and for employer-sponsored group insurance schemes (see page 153 of the CRS Commentary).

Pre-existing individual account due diligence will generally involve the Reporting NZFI either:

- applying a “residential address test”³⁵ (supported by documentary evidence) to determine whether the account holder is a foreign tax resident; or
- reviewing the information they have for indicia (indicators) that the account holder is a foreign tax resident.³⁶

For example, the Reporting NZFI may identify in its electronic records that the account holder has a mailing address in a foreign jurisdiction and is a foreign tax resident.

- New individual accounts: Accounts held by an individual that are opened on or after 1 July 2017 (for example, an account that an individual opens with a bank on 10 August 2017).

New individual account due diligence will generally involve the Reporting NZFI:

- obtaining self-certifications from the account holder as to whether they are a relevant foreign tax resident (i.e. the account holder signing or affirming whether they are a foreign tax resident); and
 - cross-checking the reasonableness of this self-certification against other information obtained in connection with the opening of the account (including AML/KYC information). This process is known as “validating” the self-certification. This is important because a Reporting NZFI cannot rely on a self-certification or documentary evidence if they know or have reason to know that it is incorrect or unreliable.
- Pre-existing entity accounts: Accounts held by an entity (such as a trust, partnership or company) that are open as of 30 June 2017. Pre-existing entity account due diligence will generally involve the Reporting NZFI relying on a combination of information on file and valid self-certifications to determine:

³⁵ As explained in detail further below, a Reporting NZFI is only able to adopt the “residential address test” for lower value pre-existing individual accounts.

³⁶ If a Reporting NZFI maintains a pre-existing individual account (as of 30 June 2017), and has already carried out due diligence on the account for FATCA purposes, it is generally able to rely on the residential address test or indicia review for CRS purposes (i.e. generally the Reporting NZFI will not need to obtain a further self-certification for CRS purposes).

- whether the account holder is a relevant foreign tax resident; and
- whether the account holder is a passive NFE with controlling persons that are relevant foreign tax residents.
- New entity accounts: Accounts held by an entity (such as a trust, partnership or company) and that are opened on or after 1 July 2017. New entity account due diligence will generally involve the Reporting NZFI obtaining valid self-certifications to determine:
 - whether the account holder is a relevant foreign tax resident; and
 - whether the account holder is a passive NFE with controlling persons that are relevant foreign tax residents.

These due diligence procedures often involve the Reporting NZFI relying (in part) on documentary evidence to determine the residency of the account holder (or controlling person). The relevant types of documentary evidence are summarised in Appendix 3.

There are also a number of threshold rules and exclusions that feed into these due diligence procedures.³⁷ For example:

- Pre-existing individual accounts: There is a USD 1,000,000 balance test (which a Reporting NZFI can simply treat as NZD 1,000,000), which will determine whether an account is a lower-value account or a high-value account. For example, whether or not the balance or value of the account is USD 1,000,000 or more on 30 June 2017 or any subsequent 31 March, and, therefore is a high-value account subject to enhanced due diligence.
- Pre-existing entity accounts: There is a USD 250,000 de minimis threshold exclusion (which a Reporting NZFI can simply treat as NZD 250,000) from due diligence and reporting. This would apply if the account has a balance or value that does not exceed USD 250,000 on 30 June 2017 or any subsequent 31 March. **A Reporting NZFI is able to choose not to adopt this threshold exclusion.**
- Pre-existing entity accounts: A USD 1,000,000 balance test (which a Reporting NZFI can simply treat as NZD 1,000,000), which will determine what due diligence process the Reporting NZFI needs to follow to identify whether any of a passive NFE's controlling

³⁷ The method that a Reporting NZFI should use for determining the balance or value of an account is outlined in detail in paragraph 6.2 of this guidance.

persons are foreign tax residents. The Reporting NZFI will need to obtain self-certifications if the balance exceeds USD 1,000,000.

The CRS also contains various aggregation rules a Reporting NZFI will need to adopt **when applying these threshold balance tests**. These aggregation rules cover the following circumstances:

- Aggregation of individual accounts: For purposes of determining the aggregate balance or value of financial accounts held by an individual:
 - A Reporting NZFI is required to aggregate all financial accounts maintained by the Reporting NZFI, or by a related entity,³⁸ but only to the extent that the Reporting NZFI's computerised systems link the financial accounts by reference to a data element such as client number or taxpayer identification number (TIN), and allow account balances or values to be aggregated. Each holder of a jointly held financial account shall be attributed the entire balance or value of the jointly held financial account for purposes of applying the aggregation requirements described above. And:
 - For the purposes of determining the aggregate balance or value of pre-existing individual financial accounts held by a person to determine whether a financial account is a high-value account, a Reporting NZFI is also required:
 - In the case of any financial accounts that a relationship manager knows, or has reason to know, are directly or indirectly owned, controlled or established (other than in a fiduciary capacity) by the same person, to aggregate all such accounts.
- Aggregation of entity accounts: For purposes of determining the aggregate balance or value of financial accounts held by an entity, a Reporting NZFI is required to take into account all financial accounts that are maintained by the Reporting NZFI, or by a related entity, but only to the extent that the Reporting NZFI's computerised systems link the financial accounts by reference to a data element such as client number or TIN, and allow account balances or values to be aggregated. Each holder of a jointly held financial account shall be attributed the

³⁸ Under the CRS an entity is a "related entity" of another entity if either entity controls the other entity or the two entities are under common control. For this purpose, control includes direct or indirect ownership of more than 50% of the vote and value of such entity. Additionally, two managed investment entities can be related entities if they are under common management and such management fulfils the due diligence obligations of such investment entities.

entire balance or value of the jointly held financial account for purposes of applying the aggregation requirements described above.

Reporting NZFIs are required to carry out these due diligence procedures on their financial accounts (including applying these balance or value thresholds and aggregation rules) to determine whether these accounts are held (and/or, in the case of a passive NFE, controlled) by foreign tax residents.

It is important to note that these due diligence requirements are not merely a one-off “snapshot”. Instead, these requirements are on-going in nature.

For example, suppose that a Reporting NZFI has carried out due diligence on an individual account holder, obtained a valid self-certification from that account holder (supported by documentary evidence), and has determined that the account is not held by a foreign tax resident. The expectation in the CRS is that the Reporting NZFI will have procedures in place to identify when there is subsequently a “change in circumstances” that may call into question the validity of the self-certification (or documentary evidence) and require it to carry out further due diligence. This is in line with an over-arching pillar in the CRS that a Reporting NZFI cannot rely on a self-certification, documentary evidence or other information to determine the CRS status of an account if they know or have reason to know that it is incorrect or unreliable (i.e. potentially because of a change in circumstance that calls it into question).

Page 130 of the CRS Commentary states (in this regard) that:

...a Reporting Financial Institution is **expected to institute procedures to ensure that any change that constitutes a change in circumstances is identified** by the Reporting Financial Institution. (Emphasis added).

Page 116, paragraph 17 of the CRS Commentary, in turn, provides that a “change in circumstances” includes any change that results in the addition of information relevant to a person’s status or otherwise conflicts with such a person’s status. In addition, a change in circumstances includes any change or addition of information to the account (including the addition, substitution or other change of an account holder) or any change or addition of information to any account associated with such an account (applying the aggregation rules) if that change or addition of information affects the status of the account.

The emphasis here is on Reporting NZFIs having procedures in place to identify and follow up on changes that **may** affect the classification of a financial account. This would include:

- having procedures in place to identify the addition of indicia³⁹ of foreign tax residence relating to an account;

³⁹ The type of indicia that would be relevant in this context would include the indicia of foreign tax residency described in the pre-existing individual account due diligence procedures (see section III(B)(2)(a)-(f) of the CRS), and that is explained in detail in paragraph 5.3.2 of this guidance.

- informing a person providing a self-certification or documentation relating to an account of the person's obligation to notify the Reporting NZFI of a change in circumstances that they are aware of (see pages 130 and 205 of the CRS Commentary). This is important because, as noted above, a Reporting NZFI cannot rely on a self-certification or documentation that it knows or has reason to know is incorrect or unreliable;
- having procedures to ensure that any change to the customer master files that constitutes a change in circumstances is identified (see page 204 of the CRS Commentary);
- having procedures in place to ensure that a relationship manager identifies any change in circumstances relating to a pre-existing high-value individual account that they act as relationship manager for (see section III(C)(9) of the CRS);
- having procedures in place to identify when a pre-existing individual account has become a high-value account (and, therefore, subject to enhanced due diligence procedures); and
- if the Reporting NZFI maintains an account held by a passive NFE trust where the beneficiary(ies) is designated by characteristics or by class (i.e. as opposed to being individually named beneficiaries), it should obtain sufficient information concerning the beneficiary(ies) to satisfy itself that it will be able to establish the identity of the beneficiary(ies) at the time of the pay-out or when the beneficiary(ies) intends to exercise vested rights (see page 199 of the CRS Commentary).

Example 1: A Reporting NZFI obtains a self-certification on account opening that an account holder is resident in New Zealand. Three years after account opening, the account holder rings the Reporting NZFI to add a foreign mailing address to the account.

This is a change in circumstances that calls into question the original self-certification. The Reporting NZFI would need to re-determine the status of the account.

However, it is important to note that a Reporting NZFI will **not necessarily** know or have reason to know about every change in circumstances pertaining to an account that they maintain. For example, a Reporting NZFI may have reasonable procedures in place to identify a change in circumstances, but still not identify a particular change. In this respect, page 130 of the CRS Commentary states that a Reporting NZFI may rely on a self-certification **without having to enquire into possible changes of circumstances** that may affect the validity of the statement, **unless** it knows or has reason to know that circumstances have changed.

*Example 2: A Reporting NZFI has procedures in place to determine that a self-certification is correct (including informing any person providing a self-certification of the person's obligation to notify them of a change in circumstances). An account holder has provided a self-certification that they are a New Zealand tax resident and are not a foreign tax resident. The account holder **subsequently** becomes a foreign tax resident. However, the account holder deliberately fails to inform the Reporting NZFI of this change. Therefore, the Reporting NZFI is not aware of this change. However, it is not at fault. In such circumstances, the Reporting NZFI would not have breached its CRS due diligence obligations.*

5.2 Detailed outline of due diligence procedures

This guidance now outlines in detail the due diligence procedures that Reporting NZFIs will need to carry out for the four different types of financial accounts:

- pre-existing individual accounts (accounts held by an individual that are open as of 30 June 2017);
- new individual accounts (accounts held by an individual that are opened on or after 1 July 2017);
- pre-existing entity accounts (accounts held by an entity (such as a trust, partnership, or company) that are open as of 30 June 2017); and
- new entity accounts (accounts held by an entity (such as a trust, partnership or company) that are opened on or after 1 July 2017).

5.3 Pre-existing individual accounts

5.3.1 Overview

In broad terms, a pre-existing individual account is an account that is both:

- maintained by a Reporting NZFI as of 30 June 2017; and
- held by an individual.

An additional account opened by a pre-existing customer on or after 1 July 2017 is also treated as a pre-existing account in the following circumstances:

- the account holder holds with the Reporting NZFI (or a related entity in New Zealand) a financial account that is a pre-existing account;

- the Reporting NZFI (and any related entity) treats both accounts as a single account for the purposes of satisfying the “standards of knowledge” requirements and determining the balance or value of the account when applying any account thresholds;
- if the financial account is subject to AML/KYC procedures, the Reporting NZFI is permitted to satisfy such procedures for the financial account by relying on the AML/KYC procedures performed for the pre-existing account; and
- opening the financial account does not require the account holder to provide new, additional or amended customer information other than for the purposes of the CRS.

A Reporting NZFI is generally required to carry out due diligence on all pre-existing individual financial accounts to determine whether they are held by relevant foreign tax residents. There is no de minimis threshold (compared with FATCA, which has various de minimis thresholds).

However, a Reporting NZFI is not required to review a pre-existing individual account that is a cash value insurance contract or annuity contract if they are effectively prohibited by law from selling the contract to relevant foreign tax residents.

The type of due diligence procedures that the Reporting NZFI will need to carry out on pre-existing individual accounts will depend on whether:

- the account is a lower value-account: With a balance or value of USD 1,000,000 or less (which a Reporting NZFI can simply treat as NZD 1,000,000) as of 30 June 2017; or
- the account is a high value account: With a balance or value that exceeds USD 1,000,000 (which a Reporting NZFI can simply treat as NZD 1,000,000) as of 30 June 2017 or any subsequent 31 March. As explained further below, Reporting NZFIs need to carry out enhanced due diligence for high-value accounts.

This raises the following questions:

- What will due diligence involve for “lower-value” pre-existing individual accounts?
- What will due diligence involve for “high-value” pre-existing individual accounts?

5.3.2 **CRS due diligence procedures for lower-value pre-existing individual accounts**

Reporting NZFIs have some flexibility when carrying out due diligence on lower-value pre-existing individual accounts:

- they can choose to adopt a “residence address test” as a proxy for determining whether the account holder is a relevant foreign tax resident; or
- alternatively, they can choose to rely on a “foreign indicia test” (searching for indicators that the account holder is a foreign tax resident) as a proxy for determining whether the account holder is a relevant foreign tax resident.

This guidance now explains how Reporting NZFIs can carry out due diligence under each of these due diligence pathways for lower-value accounts.

Residence address test

Reporting NZFIs have the **option** of using a current residence address test (based on documentary evidence)⁴⁰ as a proxy to determine whether a lower-value pre-existing individual account holder is a relevant foreign tax resident. This is a key difference from FATCA, which does not have such a test.

Example: Reporting NZFI chooses to adopt the “residence address test” to determine the status of its lower-value pre-existing individual accounts. Reporting NZFI maintains a pre-existing individual account held by Claire. The account has a balance of NZD 10,000 as of 30 June 2017. The Reporting NZFI’s records show that Claire has a current residential address in foreign jurisdiction B. Reporting NZFI has documentary evidence supporting the fact that Claire is resident in foreign jurisdiction B. Reporting NZFI treats Claire as tax resident in foreign jurisdiction B for CRS purposes.

If a Reporting NZFI has relied on the residence address test to determine an account holder’s tax residency (like the Reporting NZFI did for Claire in the above example) and there is a change in circumstances that causes the institution to know or have reason to know that the documentary evidence (or other documentation relied on) is incorrect or unreliable, it is are required to carry out further due diligence on the account to determine its status. This may involve redoing the residence address test or carrying out the indicia test outlined below.

Indicia test

A Reporting NZFI that does not adopt the residential address test (or is not able to apply that test) will need to determine the account holder’s tax residence by reviewing its electronic records for relevant indicia (indicators) that the account holder is a foreign tax resident. Such indicia (if identified) will be used as a proxy for determining the account holder’s tax residence (i.e. indicia of tax residence in a foreign jurisdiction leading to a presumption of tax residence in that jurisdiction), unless the Reporting NZFI chooses to “cure” such indicia. The concept of “curing indicia” is outlined further below.

⁴⁰ The relevant types of documentary evidence for CRS purposes are set out in Appendix 3 of this guidance.

The Reporting NZFI must (in these circumstances) review electronically searchable data that it maintains for records of the following indicia:

- a) identification of the account holder as a resident of a foreign jurisdiction;
- b) current mailing or residence address (including a post office box) in a foreign jurisdiction;
- c) one or more telephone numbers in a foreign jurisdiction and no telephone number in New Zealand;
- d) standing instructions (other than with respect to a depository account) to transfer funds to an account maintained in a foreign jurisdiction;
- e) currently effective power of attorney or signatory authority granted to a person with an address in a foreign jurisdiction; or
- f) a “hold mail” instruction or “in-care-of” address in a foreign jurisdiction if the Reporting NZFI does not have any other address on file for the account holder.

If the Reporting NZFI does **not** discover any of these indicia in the electronic search, it is not required to take any further steps until there is a change in circumstances that results in one or more indicia being associated with the account, or the account becomes a high value account.

If the Reporting NZFI discovers any of the indicia of foreign tax residence listed in (a) through (e) above in the electronic search, or if there is a change in circumstances that results in one or more indicia being associated with the account, the Reporting NZFI must treat the account holder as a resident for tax purposes of each foreign jurisdiction for which an indicium is identified, unless it chooses to (and is able to) cure the indicia. The relevant “curing” procedures are generally based on the Reporting NZFI obtaining a combination of self-certifications⁴¹ and documentary evidence⁴² to establish the account holder’s residence. These procedures are further explained on pages 120 to 121 of the CRS Commentary.

If the Reporting NZFI discovers a “hold mail” instruction or “in-care-of” address in the electronic search (and no other address) and does not identify any of the other indicia of foreign tax residence listed in (a) through (e) above for the account holder they must, in the order most appropriate to the circumstances, adopt the following procedures to determine whether the account holder is a foreign tax resident:

⁴¹ Reporting NZFIs should refer to the guidance set out below for new individual account due diligence (paragraph 5.4.1) for the details of who can provide such a self-certification and what form the self-certification can take.

⁴² The types of documentary evidence are set out in Appendix 3.

- apply a paper record search; or
- seek to obtain from the account holder a self-certification or documentary evidence to establish their residence(s) for tax purposes.

The paper record search that a Reporting NZFI may need to carry out in these circumstances is as follows:

- Review its current customer master file and, to the extent not contained in the current customer master file, the following documents associated with the account and it has obtained within the last five years for **any of the indicia of foreign tax residence in a foreign jurisdiction listed in (a) through (e) above for the account holder**:
 - the most recent documentary evidence collected with respect to the account;
 - the most recent account opening contract or documentation;
 - the most recent documentation obtained by the Reporting NZFI according to AML/KYC Procedures or for other regulatory purposes;
 - any power of attorney or signature authority forms currently in effect; and
 - any standing instructions (other than with respect to a depository account) to transfer funds currently in effect.

If the paper search fails to establish an indicium **and** the attempt to obtain the self-certification or documentary evidence is not successful, the Reporting NZFI must report the account as an undocumented account.

5.3.2.1 *Information to collect*

If a Reporting NZFI carries out the above procedures, and identifies that the account holder is a relevant foreign tax resident, they will need to collect prescribed information from the account holder.⁴³ This will include (subject to the following exceptions and qualifications):

⁴³ It is assumed, for the purposes of the following, that the Reporting NZFI will already have the account holder's name and address in its records. A full list of the information that the Reporting NZFI needs to collect and report (if the account is a reportable account) is set out in paragraph 6 of this guidance.

- the account holder’s tax identification number (TIN) (or a functional equivalent,⁴⁴ in the absence of a TIN) with respect to each⁴⁵ foreign jurisdiction they are identified as being tax resident in; and
- the account holder’s date of birth.

The OECD’s AEOI portal⁴⁶ contains the rules that jurisdictions adopt for issuing TINs (or functional equivalent, in the absence of a TIN) and the format of such TINs. The information on this portal will assist Reporting NZFIs in carrying out their due diligence and determining when they need to collect TINs.

A Reporting NZFI is generally not required to confirm the format and other specifications of a TIN with the information on the AEOI Portal. Reporting NZFIs may nevertheless wish to do so to enhance the quality of the information collected and minimise the administrative burden associated with any follow-up concerning reporting of an incorrect TIN.

Notwithstanding the general rule expressed above, a Reporting NZFI should be familiar with, and check for, the validity of TINs from another jurisdiction in which the Reporting NZFI or a related entity operates if:

- there are simple or standard rules for TINs in that jurisdiction (such as the structure or number of digits); and
- the IT systems used across the jurisdictions are shared or sufficiently similar that the validation task would not be onerous.

Exceptions: The Reporting NZFI is not required to obtain the account holder’s TIN (or functional equivalent) if either:

- the account holder has not been issued with a TIN (or functional equivalent). For example, if:
 - the account holder’s jurisdiction of tax residence does not issue TINs (or a functional equivalent); or

⁴⁴ The meaning of “functional equivalent” to a TIN is outlined on page 202 of the CRS Commentary.

⁴⁵ This principle that a Reporting NZFI must obtain such TIN information for all of the jurisdictions that the account holder (or, if applicable, controlling person) is identified as being tax-resident in applies to all accounts.

⁴⁶ <http://www.oecd.org/tax/automatic-exchange/>.

- the account holder’s jurisdiction of tax residence has not issued a TIN (or a functional equivalent) to them. For example, the account holder may be a child that has not been issued with a TIN; or
- the account holder’s jurisdiction of tax does not require the collection of the TIN issued by such jurisdiction.

If the account holder claims not to have a TIN (or functional equivalent) the Reporting NZFI should refer to the AEOI portal for information about whether the person’s jurisdiction of tax residence issues TINs to all tax residents.

Qualification: A Reporting NZFI is also not required to obtain an account holder’s TIN (or functional equivalent) or date of birth for such a pre-existing account if this information is not in its records.⁴⁷ However, the Reporting NZFI is required to use reasonable efforts to obtain⁴⁸ such information by the end of the second reporting period following the period in which the account holder is identified as being a Reportable Person.

5.3.2.2 *Timing for completion of due diligence and reporting*

Reporting NZFIs must complete their initial review and any reporting (if the accounts are identified as reportable) of pre-existing individual lower-value accounts by 30 June 2019. Reporting NZFIs will have the option of taking advantage of the whole period up to 30 June 2019 to complete their due diligence on such accounts provided these accounts are reported by 30 June 2019 if indeed they are identified as being reportable.

5.3.3 **CRS due diligence procedures for high-value pre-existing individual accounts – balance or value that exceeds USD 1,000,000 as of 30 June 2017 or any subsequent 31 March**⁴⁹

A Reporting NZFI that maintains a high value pre-existing individual account needs to perform enhanced due diligence procedures on the account to determine if the account holder is a relevant foreign tax resident.

This includes, **in addition** to the Reporting NZFI being required to review electronic records for indicia⁵⁰ that the account holder is a relevant foreign tax resident (in the way outlined above with respect to lower-value accounts):

⁴⁷ A Reporting NZFI is sometimes required to obtain date of birth information for Anti-Money Laundering purposes (see section 15(b) of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009), and, if so, would already have such information in their records.

⁴⁸ However, this is subject to the exceptions outlined above. This principle applies to all pre-existing accounts.

⁴⁹ A Reporting NZFI is able to choose to adopt these procedures for lower-value accounts as well.

⁵⁰ The same indicia are relevant for both lower-value and high-value accounts.

- sometimes being required to conduct a paper record search for such indicia; and
- applying an actual knowledge test when a relationship manager has actual knowledge that the account is held by a Reportable Person (the “relationship manager test”).

A Reporting NZFI is not able to apply the “residence address” test for such high-value accounts.

The paper-based search

As noted above, the issue of whether a Reporting NZFI that maintains a high-value account needs to do a paper-based search for foreign indicia will depend on the facts.

A Reporting NZFI is not required to perform this paper record search **if** its electronically searchable information includes the following:

- the account holder’s residence status;
- the account holder’s residence address and mailing address is currently on file with the Reporting NZFI;
- the account holder’s telephone number(s) (if any) is currently on file, with the Reporting NZFI;
- in the case of financial accounts other than depository accounts, whether there are standing instructions to transfer funds in the account to another account (including an account at another branch of the Reporting NZFI or another financial institution);
- whether there is a current “in-care-of” address or “hold mail” instruction for the account holder; and
- whether there is any power of attorney or signatory authority for the account.

However, **if** the Reporting NZFI’s electronically searchable information does not include the above information it is (in addition to the electronic records search for foreign indicia) required to perform the following paper-based search for indicia of whether the account holder is a relevant foreign tax resident.

The Reporting NZFI needs to review the current customer master file and, to the extent not contained in the current customer master file, the following documents associated with the account and that they have obtained within the last five years for any of the indicia of tax residence in a foreign jurisdiction referred to above:

- the most recent documentary evidence collected with respect to the account;
- the most recent account opening contract or documentation;
- the most recent documentation obtained by the Reporting NZFI pursuant to AML/KYC Procedures or for other regulatory purposes;
- any power of attorney or signature authority forms currently in effect; and
- any standing instructions (other than with respect to a depository account) to transfer funds currently in effect.

If no indicia of foreign tax residence are discovered in the enhanced review of high value accounts described above, and the account is not identified as held by a Reportable Person under the “relationship manager knowledge test” (outlined further below), no further action is required until there is a change in circumstances that results in one or more indicia being associated with the account.

If any of the indicia of foreign tax residence are discovered in the enhanced review of high value accounts described above, or if there is a subsequent change in circumstances that results in one or more indicia being associated with the account, the Reporting NZFI must treat the account holder as a resident for tax purposes of each foreign jurisdiction for which an indicium is identified unless it elects to (and is able to) cure the indicia. The relevant “curing” procedures are generally based on obtaining a combination of self-certifications and documentary evidence to establish the account holder’s residence. These procedures are further elaborated on pages 120 to 121 of the CRS Commentary.

If a “hold mail” instruction or “in-care-of” address is discovered in the enhanced review of high value account described above (and no other address) and none of the other indicia of foreign tax residence are identified for the account holder, the Reporting NZFI must obtain from such account holder a self- certification or documentary evidence to establish their residence(s) for tax purposes.

If the Reporting NZFI cannot obtain such self- certification or documentary evidence, it must report the account as an undocumented account.

The relationship manager tests

In addition to the electronic and paper record searches described above, the Reporting NZFI must treat as a reportable account any high value account assigned to a relationship manager (including any financial accounts aggregated with that high value account) if the relationship manager has actual knowledge that the account holder is a Reportable Person.

Section III(C)(9) of the CRS provides (in this regard) that a Reporting NZFI must implement procedures to ensure that a relationship manager identifies any change in circumstances relating to an account that it acts as relationship manager for. For example, if a relationship manager is notified that the

account holder has a new mailing address in a foreign jurisdiction, the Reporting NZFI is required to treat the new address as a change in circumstances and apply further prescribed due diligence procedures to the account.

5.3.3.1 Information to collect

If a Reporting NZFI carries out these procedures, and identifies that the account holder is a relevant foreign tax resident, it will need to collect the account holder's TIN (or functional equivalent) and date of birth. However, this is subject to the same exceptions and qualification outlined above for pre-existing individual lower value accounts.

5.3.3.2 Timing for completion of due diligence and reporting

Reporting NZFIs will need to have completed their initial review and any reporting (if the accounts are identified as reportable) of pre-existing individual high-value accounts by 30 June 2018. Reporting NZFIs will have the option of taking advantage of the whole period up to 30 June 2018 to complete their due diligence on such accounts provided that the accounts are reported by 30 June 2018 if indeed they are identified as being reportable.

If a pre-existing individual account is not a high value account as of 30 June 2017, but becomes a high-value account as of 31 March of a subsequent period, the Reporting NZFI must complete the enhanced review procedures described above with respect to such an account within the reporting period following the period in which the account becomes a high-value account.

Once a Reporting NZFI applies the enhanced review procedures described above to a high-value account, the Reporting NZFI is generally not required to re-apply such procedures, other than the relationship manager enquiry, to the same high-value account in any subsequent year. However, if the account is undocumented the Reporting NZFI should re-apply the procedures annually until the account ceases to be undocumented.

5.4 New individual accounts⁵¹

In broad terms, a new individual account is an account that a Reporting NZFI opens on or after 1 July 2017 that is held by an individual.

Section IV of the CRS states that a Reporting NZFI must carry out the following due diligence procedures for such accounts:

- obtain a self-certification “upon account opening” that allows it to determine the account holder's residence(s) for tax purposes;

⁵¹ A Reporting NZFI is also able to choose to use these procedures for pre-existing individual accounts.

- confirm the reasonableness of such self-certification based on the information it has obtained in connection with the opening of the account (including any documentation collected in accordance with AML/KYC Procedures). This is known as the “reasonableness” test for “validating” the self-certification; and
- there is no de minimis due diligence exclusion (compared with FATCA where there is a USD 50,000 threshold exclusion for certain individual accounts).

A Reporting NZFI is able to rely on a self-certification that it has obtained for such accounts unless it knows or has reason to know that the self-certification is incorrect or unreliable.

The following extract from page 211 of the CRS Commentary highlights how obtaining such valid self-certifications is a fundamental element of the CRS:

“it is expected that jurisdictions have strong measures in place **to ensure that valid self certifications are always obtained for New Accounts.**” (Emphasis added)

This raises the following questions:

- **how** can such self-certifications be obtained;
- **when** can such self-certifications be obtained; and
- **what** information will a self-certification need to include?

5.4.1 Form of self-certification

A self-certification must be signed (or otherwise positively affirmed) by any person authorised to sign on behalf of the account holder. A parent or guardian who opens an account for a child will be required to provide the self-certification on behalf of the child account holder.

A self-certification will be considered to be positively affirmed if the person making the self-certification provides the Reporting NZFI with an unambiguous acknowledgement that it agrees with the representations made through the self-certification. In all cases the affirmation should be recorded by the Reporting NZFI (e.g. for an oral self-certification, a voice recording or digital footprint, so a Reporting NZFI can demonstrate that the self-certification was positively affirmed).

A self-certification may be obtained in any manner and in any form, i.e. in writing, electronically or orally. The only requirement is that the self-certification contains all the required information and is signed or positively affirmed.

For record-keeping purposes, a Reporting NZFI will need to keep a record of self-certifications obtained, the process followed to obtain such certifications, and a record of any failure to obtain a self-certification.

These requirements apply to CRS self-certifications for all types of accounts.

5.4.2 Obtaining a valid self-certification on “account opening”

The OECD has also provided the following guidance (in an answer to a “Frequently Asked Question” on the AEOI portal) about what it considers would satisfy the requirement that such self-certifications are obtained “upon account opening”.

The following guidance applies for the purposes of both individual and entity account due diligence:

“the Standard provides that a Reporting Financial Institution must obtain a self-certification upon account opening (Sections IV(A) and V(D)(2)). Where a self-certification is obtained at account opening but validation of the self-certification cannot be completed because it is a “day two” process undertaken by a back-office function, the self-certification should be validated within a period of 90 days. **There are a limited number of instances, where due to the specificities of a business sector it is *not possible* to obtain a self-certification on “day one” of the account opening process, for example where an insurance contract has been assigned from one person to another or in the case where an investor acquires shares in an investment trust on the secondary market.** In such circumstances, the self-certification should be both obtained and validated as quickly as feasible, and in any case within a period of 90 days. Given that obtaining a self-certification for New Accounts is a critical aspect of ensuring that the CRS is effective, **it is expected that jurisdictions have strong measures in place to ensure that valid self-certifications are always obtained for New Accounts** (see examples in paragraph 18 of the Commentary on Section IX). **In all cases, Reporting Financial Institutions shall ensure that they have obtained and validated the self-certification in time to be able to meet their due diligence and reporting obligations with respect to the reporting period during which the account was opened.** (Emphasis added)

Therefore, the OECD considers that the CRS requirement for a Reporting NZFI to obtain a self-certification for an account “upon account opening” generally requires that it obtains a self-certification on ““day one” of the account opening process”.

“Day one”, in this context, would be when the Reporting NZFI takes the first steps to materially progress the account opening process.

It is accepted that a Reporting NZFI may not be able to immediately obtain a complete and valid self-certification from a person wanting to open an account (for example, the person may not have their TIN with them when they seek to open an account).

However, as explained further below, a Reporting NZFI can generally make the opening of an account contingent on first obtaining a valid self-certification (i.e. the Reporting NZFI can generally decide not to take steps to materially progress the account opening process until it obtains a self-certification). This is the most efficient way for a Reporting NZFI to ensure it meets the expectation in the CRS that it always obtains valid self-certifications for new accounts.

However, the OECD has acknowledged that there may be exceptional circumstances when it is not possible for a Reporting NZFI to obtain a self-certification on account opening. For example:

- where an annuity contract has been assigned; or

- where an investor acquires shares/units in a collective investment vehicle on the secondary market.

In such exceptional circumstances, the Reporting NZFI should have processes in place to obtain a validated self-certification within 90 days of the account being opened (or in time to meet due diligence and reporting obligations in the period when the account is opened – if this is earlier). The OECD’s answer to the above “Frequently asked Question” is clear that in such circumstances the Reporting NZFI will have complied with its requirement to obtain a self-certification “upon account opening” in the requisite sense.

However, it is important to note that the OECD’s answer to the above “Frequently Asked Question” is clear that it is a very high bar before such exceptional circumstances would apply. The emphasis is on such exceptional circumstances (where up to 90 days would be permissible to obtain a self-certification) only applying where it is **not possible** for the Reporting NZFI to obtain a self-certification on day one of the account opening process, not when it would merely be difficult for the Reporting NZFI to obtain such a self-certification.

Inland Revenue considers that, taking into account the reference in page 211 of the CRS Commentary to the requirement for a Reporting NZFI to always obtaining valid self-certifications “upon account opening” and how the OECD has interpreted this requirement, generally:

- a Reporting NZFI should seek to obtain self-certifications on “day one” of the account opening process; and
- a Reporting NZFI must obtain a valid self-certification upon account opening or decline to open the account (for example, the Reporting NZFI should not take material steps to progress the account opening process – such as accepting deposits – before obtaining the requisite self-certification).

In this regard, the requirement for a Reporting NZFI to obtain a valid self-certification on account opening includes:

- the Reporting NZFI obtaining all of the information it needs to obtain as part of the self-certification (including, for example, TIN and date of birth information of a foreign tax resident – see below); and
- the Reporting NZFI **confirming the reasonableness** of the self-certification (i.e. validating the self-certification). The OECD’s answer to the above “Frequently Asked Question” is clear that where this “validation process” cannot be completed on “day one” of account opening because it is a “day two” process undertaken by a back office function of a Reporting NZFI, the validation should be completed within 90 days of commencement of the account

opening process (or in time to meet due diligence and reporting obligations in the period when the account is opened – if this is earlier).

Examples of when a Reporting NZFI would have “reason to know” that a self-certification is unreliable (i.e. where the self-certification would not pass this validation test) are:

- The self-certification is incomplete with respect to any item on the self-certification that is relevant to the account holder’s claims.
- The self-certification contains any information which is inconsistent with the account holder’s claims.
- There is information in the Reporting NZFI’s account files that conflicts with or calls into question the account holder’s self-certification.

The emphasis, in this regard, is not on the Reporting NZFI needing to conduct a legal analysis of the account holder’s tax residency. Instead, this “reasonableness” validation is more focused on having cross-checks that look for “flags” that the self-certification may be incorrect or unreliable. These validation requirements apply to CRS self-certifications for all types of accounts.

In this respect, the OECD has provided the following guidance in an answer to a “Frequently Asked Question”:

A Financial Institution is not required to provide customers with tax advice or to perform a legal analysis to determine the reasonableness of self-certification. Instead, as provided in the Standard, for New Accounts the Financial Institution may rely on a self-certification made by the customer unless it knows or has reason to know that the self-certification is incorrect or unreliable, (the “reasonableness” test), which will be based on the information obtained in connection with the opening of the account, including any documentation obtained pursuant to AML/KYC procedures. The Standard provides examples of the application of the reasonableness tests (section IV, A, and the associated Commentary).

A self-certification of an individual account holder’s tax residence will only be valid if:

- It is signed (or otherwise positively affirmed) by the account holder or person with authority to sign for the account holder.
- It is dated at the latest at the date of receipt.
- It contains each account holder’s:

- name;
- address;
- jurisdiction(s) of residence for tax purposes.
- TIN (or functional equivalent, in the absence of a TIN) with respect to each foreign tax jurisdiction (subject to the exceptions outlined below).
- Date of birth.

A Reporting NZFI is generally not required to confirm the format and other specifications of a TIN with the information on the AEOI Portal. Reporting NZFIs may nevertheless wish to do so in order to enhance the quality of the information collected and minimise the administrative burden associated with any follow-up concerning reporting of an incorrect TIN.

Notwithstanding the general rule expressed above, a Reporting NZFI should be familiar with, and check for, the validity of TINs from another jurisdiction in which the Reporting NZFI or a related entity operates if:

- There are simple or standard rules for TINs in that jurisdiction (such as the structure or number of digits).
- The IT systems used across the jurisdictions are shared or sufficiently similar that the validation task would not be onerous.

Exception: The Reporting NZFI is not required to obtain the account holder's TIN (or functional equivalent) if either:

- The account holder has not been issued with a TIN (or functional equivalent). For example, if:
 - the account holder's jurisdiction of tax residence does not issue TINs (or a functional equivalent); or
 - the account holder's jurisdiction of tax residence has not issued a TIN (or a functional equivalent) to them. For example, the account holder may be a child that has not been issued a TIN; or
- The account holder's jurisdiction of tax residence does not require the collection of the TIN issued by such jurisdiction.

If the account holder claims not to have a TIN (or functional equivalent):

- This statement should be part of the self-certification collected for the account, unless the Reporting NZFI reasonably determines, based on information on the AEOI Portal, that the person would not have a TIN for the relevant foreign jurisdiction.
- If the information included on the AEOI Portal indicates that the person's jurisdiction of tax residence issues TINs to all tax residents, the Reporting NZFI would have reason to know that the self-certification may be unreliable or incorrect and would be expected to seek either a valid (new) self-certification or a reasonable explanation as to why the person has not provided the TIN.

Example 1: Bob wants to open a depository account with a Reporting NZFI bank. The Reporting NZFI informs Bob that he needs to provide a self-certification of his tax residency before they will open the account. Bob says he does not want to provide such a self-certification. However, Bob still wants to deposit funds into the account. The Reporting NZFI decides not to open the account and informs Bob that it will not open the account until Bob provides a self-certification. Bob never provides a self-certification and the account is never opened. Reporting NZFI keeps a record of Bob's failure to provide a self-certification.

In these circumstances, the Reporting NZFI would not have obtained a self-certification from Bob.

However, the Reporting NZFI has not opened the account or indeed taken the first material steps to progress the account opening process (compared with if the Reporting NZFI had accepted a deposit from Bob).

Therefore, the Reporting NZFI has not breached the CRS requirement to obtain a self-certification on account opening. The Reporting NZFI did not obtain a self-certification. However, the Reporting NZFI did not progress the account opening procedures in a material way. Therefore, the Reporting NZFI did not breach its obligations.

Example 2: Clive wants to open a depository account with a Reporting NZFI bank. The Reporting NZFI informs Clive that he needs to provide a self-certification of his tax residency before it will open the account. Clive says he does not want to provide such a self-certification. However, Clive still wants to deposit funds into the account. The Reporting NZFI decides not to open the account and informs Clive that it will not open the account until Clive provides a self-certification. Reporting NZFI assigns a reference number to Clive for administrative purposes in case Clive subsequently provides the requisite self-certification in order for the account to be opened. Clive never provides a self-certification and the account is never opened. Reporting NZFI keeps a record of Clive's failure to provide a self-certification.

In these circumstances, the Reporting NZFI would not have obtained a self-certification from Clive.

However, the Reporting NZFI has not opened the account or indeed taken the first material steps to progress the account opening process (compared with if the Reporting NZFI had accepted a deposit from Clive).

Therefore, the Reporting NZFI has not breached the CRS requirement to obtain a self-certification on account opening. The Reporting NZFI did not obtain a self-certification. However, the Reporting NZFI did not progress the account opening procedures in a material way. Therefore, the Reporting NZFI did not breach its obligations.

Example 3: *Daniel tries to open a depository account with a Reporting NZFI. The Reporting NZFI informs Daniel that he needs to provide a self-certification of his tax residency. Daniel says that he is a foreign tax resident from jurisdiction A but that he cannot **complete** the self-certification at that stage as he does not have his TIN with him. Reporting NZFI **still** allows Daniel to progress account opening procedures and deposit \$50,000 in the account. Reporting NZFI subsequently endeavours to obtain Daniel's **completed** self-certification (including his TIN). However, the Reporting NZFI is never able to obtain the TIN and Daniel does not provide a reasonable reason for not providing a TIN. The AEOI portal also indicates that jurisdiction A issues TINs to all residents.*

The Reporting NZFI would have breached its CRS requirement to obtain a self-certification on account opening:

- “Day one” of the account opening process occurred.
- Daniel was allowed to deposit funds in the account (a material step in advancing the account opening process).
- The Reporting NZFI has failed to obtain a completed self-certification from Daniel.

The Reporting NZFI would potentially be liable for a penalty for this failure. The Reporting NZFI would also need to **continue** to try to obtain a completed and validated self-certification from Daniel. If it is unsuccessful, the reasonable course of action may be to close the account. This is consistent with the expectation (outlined above) that Reporting NZFIs will always obtain a valid self-certification for new accounts.

Example 4: *Erin seeks to open an account with a Reporting NZFI. Erin self-certifies that she is a New Zealand tax resident, but asks for all her mail to be sent to a U.K. Residential address. This is a potential flag that indicates that Erin could in fact be tax resident in the U.K. (i.e. a person is **often** tax resident in the jurisdiction where they reside). This means that the Erin's self-certification is potentially unreliable. The Reporting NZFI should ask Erin further questions to determine whether or not the self-certification is reliable. The Reporting NZFI should generally not open the account unless it is able to obtain a valid self-certification.*

Example 5: *A Reporting NZFI has obtained a self-certification from Fred upon account opening. The self-certification includes all of the requisite information. The Reporting NZFI has a “day 2” validation process for self-certifications. Fred self-certifies that he is tax resident in New Zealand*

and is not a foreign tax resident. However, the information collected as part of the account opening specifies a telephone number, signatory authority and standing instructions to transfer funds to an account maintained in Country B (a foreign jurisdiction). The self-certification is potentially unreliable. The Reporting NZFI would be expected to ask Fred further questions to determine whether or not the self-certification is reliable.

5.4.3 Changes in circumstances

If a Reporting NZFI maintains a new individual account, obtains a self-certification of the account holder's residence(s), and there is a change in circumstances that subsequently causes the Reporting NZFI to know, or have reason to know, that the original self-certification is incorrect or unreliable, it cannot rely on the original self-certification and must carry out further due diligence on the account and obtain a valid self-certification (i.e. a further self-certification) that establishes the account holder's residence(s) for tax purposes.

A change in circumstances affecting a self-certification will terminate the validity of the self-certification with respect to the information that is no longer reliable, **until** the information is updated. A self-certification becomes invalid on the date that the Reporting NZFI holding the self-certification knows or has reason to know that circumstances affecting the correctness of the self-certification have changed. However, a Reporting NZFI **may choose** to treat a person as having the same status that it had prior to the change in circumstances until the earlier of 90 days from the date that the self-certification became invalid due to the change in circumstances, the date that the validity of the self-certification is confirmed, or the date that a new self-certification is obtained.

Example 6: A Reporting NZFI obtains a self-certification on account opening from George that he is tax-resident in New Zealand. Three years after account opening, George rings the Reporting NZFI to add a foreign mailing address to the account. This is a change in circumstances that calls into question George's original self-certification. The Reporting NZFI would need to re-determine the status of the account by obtaining a valid self-certification for George.

5.5 Pre-existing entity accounts

A pre-existing entity account is an account maintained by a Reporting NZFI as of 30 June 2017⁵² that is held by an entity (for example, held by a trust, company or partnership).

Reporting NZFIs are generally required to conduct due diligence on pre-existing entity accounts to determine:

- whether the entity is a relevant foreign tax resident;
- whether the entity is a passive NFE; and

⁵² A further account opened by a pre-existing entity customer on or after 1 July 2017 is **treated as** a pre-existing entity account in the same circumstances outlined above for pre-existing individual accounts in paragraph 5.3.

- if the entity is a passive NFE, whether it has any controlling persons that are relevant foreign tax residents.

However, there is a de minimis exception that applies here. If a pre-existing account has a balance or value that does not exceed USD 250,000 as of 30 June 2017 it will not be subject to due diligence unless it exceeds USD 250,000 on any subsequent 31 March. This de minimis exception is similar to the FATCA exclusions for such accounts. However, the CRS/FATCA comparison chart in Appendix 1 highlights where there are some differences.

A Reporting NZFI is able to choose to disregard this de minimis exception and review all of its pre-existing entity accounts (or a clearly identified group of such accounts) irrespective of the balance or value of the account.

The following guidance applies to those pre-existing accounts where the de minimis exception does not apply (either because the account is above the threshold or because the Reporting NZFI has chosen to disregard the threshold).

5.5.1 Whether the entity is a relevant foreign tax resident

The Reporting NZFI first needs to determine whether the entity is a relevant foreign tax resident.

The Reporting NZFI is required to review information it maintains for regulatory or customer relationship purposes (including information collected pursuant to AML/KYC procedures) to determine the account holder's tax residence. For these purposes, information indicating the account holder's residence includes a place of incorporation or organisation, or an address in a foreign jurisdiction.⁵³

If the information indicates that the account holder is a Reportable Person, the Reporting NZFI must treat the account as a reportable account unless it obtains a self-certification from the account holder or reasonably determines, based on information that is publicly available or is in their possession, that the account holder is not a Reportable Person.

The relevant "publicly available information" that can be used to determine an account holder's status is outlined on page 137 of the CRS Commentary. This includes information in a publicly accessible register maintained or authorised by an authorised government body. The reader should refer to the CRS Commentary for further context of the types of information that would come within this category.

A Reporting NZFI is also able to use as documentary evidence in its possession (to reasonably determine the account holder's status) any classification in its records for the account holder that was determined based on a standardised industry coding system recorded consistent with its normal business practices for purposes of AML/KYC procedures or another regulatory purpose (other than for tax purposes). This is provided that it was implemented by the Reporting NZFI prior to the date

⁵³ For example, in the case of a trust account holder, the address of the trustee in a foreign jurisdiction will be relevant indicia.

used to classify the account. Page 204 of the CRS Commentary provides further context to the circumstances when a Reporting NZFI will be able to rely on such information to determine the account holder's status.

If the Reporting NZFI determines that the entity account holder is a relevant foreign tax resident based on indicia/information in its possession (or information that is publicly available) it should (subject to the exceptions/qualification outlined below) collect the account holder's TIN (or functional equivalent, in the absence of a TIN).⁵⁴

Alternatively, a Reporting NZFI may choose to obtain a self-certification from the account holder to determine whether the account holder is a relevant foreign tax resident.

A self-certification of the account holder's tax status would only be valid if:

- it is signed (or otherwise positively affirmed) by the account holder or person with authority to sign for the account holder;
- it is dated at the latest at the date of receipt; and
- it contains each account holder's:
 - name (i.e. the name of the entity);
 - address;
 - jurisdiction(s) of residence for tax purposes; and
 - TIN (or functional equivalent, in the absence of a TIN) with respect to each foreign tax jurisdiction (subject to various exceptions/qualifications – outlined below).

A Reporting NZFI is generally not required to confirm the format and other specifications of a TIN with the information on the AEOI Portal. Reporting NZFIs may nevertheless wish to do so in order to enhance the quality of the information collected and minimise the administrative burden associated with any follow-up concerning reporting of an incorrect TIN.

Notwithstanding the general rule expressed above, a Reporting NZFI should be familiar with, and check for, the validity of TINs from another jurisdiction in which the Reporting NZFI or a related entity operates if:

⁵⁴ It is assumed, for the purposes of the following, that the Reporting NZFI will already have the entity's name and address in its records. A full list of the information that a Reporting NZFI needs to collect and (if the account is a reportable account) report is set out in paragraph 6 of this guidance.

- there are simple or standard rules for TINs in that jurisdiction (such as the structure or number of digits); and
- the IT systems used across the jurisdictions are shared or sufficiently similar that the validation task would not be onerous.

Exceptions: The Reporting NZFI is not required to obtain the account holder's TIN (or functional equivalent) if either:

- the account holder has not been issued with a TIN (or a functional equivalent). For example, if:
 - the account holder's jurisdiction of tax residence does not issue TINs (or a functional equivalent); or
 - the account holder's jurisdiction of tax residence has not issued a TIN (or a functional equivalent) to them; or
- the account holder's jurisdiction of tax residence does not require the collection of the TIN issued by that jurisdiction.

If an account holder claims not to have a TIN (or a functional equivalent):

- This statement should be part of the self-certification collected for the account, unless the Reporting NZFI reasonably determines, based on information on the OECD's AEOI Portal, that the person would not have a TIN for the relevant foreign jurisdiction.
- If the information included on the AEOI Portal indicates that the person's jurisdiction of tax residence issues TINs to all tax residents, the Reporting NZFI would have reason to know that the self-certification may be unreliable or incorrect and would be expected to seek either a valid (new) self-certification or a reasonable explanation as to why the person has not provided the TIN.

Qualification: A Reporting NZFI is also not required to obtain a TIN (or a functional equivalent) for an account holder of such a pre-existing account if it is not in its records. However, the Reporting NZFI is required to use reasonable efforts to obtain the TIN by the end of the second reporting period following the period in which the account holder is identified as being a Reportable Person.

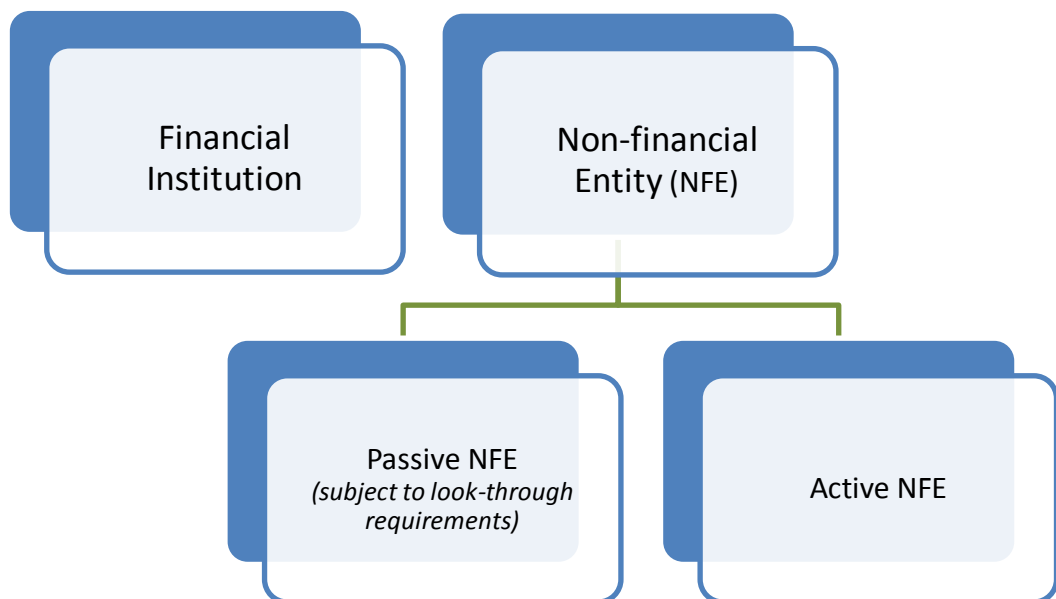
5.5.2 Whether the entity account holder is a passive non-financial entity

A Reporting NZFI that maintains a pre-existing entity account is also required to determine:

- whether the account holder is a passive NFE; and
- if the account holder is a passive NFE, whether any of its controlling persons are relevant foreign tax residents.

The Reporting NZFI will need to carry out these steps irrespective of whether the entity account holder is a foreign tax resident.

If an entity account holder is not a financial institution it will (by default) be a NFE. There are also two categories of NFE; active NFEs and passive NFEs. A NFE that is not an active NFE will (by default) be a passive NFE.



The following matters are relevant when determining whether a NFE is a “passive NFE” (and, therefore, subject to the above “look-through” rule):

- In broad terms, a passive NFE will generally cover an entity that:
 - is not a financial institution; and

- either derives predominantly (50% or more) passive income and/or has assets that predominantly produce, or are held for, the production of passive income.

However, there are some exceptions to this. For example, a registered charity that is a NFE would generally be an active NFE even if it derives predominantly passive income. The definitions of NFE, active NFE and passive NFE are outlined in full in Appendix 4.

- A managed investment entity that is tax resident in a jurisdiction that is not a Participating Jurisdiction is also deemed to be a passive NFE.

“Passive income” will be defined for CRS purposes in section 3(1) of the Tax Administration Act 1994 as:

passive income, in the application of the FATCA agreement or the CRS applied standard to a person or entity for a period, **means an amount** *that is not income from a transaction entered into in the ordinary course of the business of a dealer in financial assets* and **that is—**

(a) a dividend:

(b) interest:

(c) income equivalent to interest:

(d) **rent or a royalty**, other than rent or a royalty derived in the active conduct of a business conducted, partly or wholly, by employees of the person or entity:

(e) an annuity:

(f) **for financial assets** that give rise to amounts included **under paragraphs (a) to (e)**, the amount by which **gains from the sales or exchanges of the financial assets** in the period exceed losses from the sales or exchanges:

(g) the amount by which **gains from the transactions in financial assets** in the period exceed losses from the transactions:

(h) the amount by which **gains from the foreign currency transactions** in the period exceed losses from the transactions:

(i) the amount by which **gains from the swaps** in the period exceed losses from the swaps:

(j) an amount received under a cash value insurance contract. (Emphasis added)

For some entity account holders the active/passive assessment may be straightforward and be made on the basis of available information (in the Reporting NZFIs possession or that is publicly available).

However, the Reporting NZFI may sometimes need to obtain a self-certification from the account holder (i.e. as to whether it is a passive NFE, as opposed to an active NFE or financial institution). The Reporting NZFI, when requesting such a self-certification, is expected to provide the account holder with the information that is relevant to them determining their status (for example, the definition of “active NFE”).

5.5.3 When an entity account holder is a passive non-financial entity – identifying controlling persons

If a Reporting NZFI has identified that a pre-existing entity account it maintains is held by a passive NFE it is then required to:

- identify the entity’s controlling persons; and
- determine whether any of the entity’s controlling persons are relevant foreign tax residents.

Section VIII(D)(6) of the CRS defines “controlling persons” as meaning the natural persons who exercise control over the entity, with some elaboration (outlined below) on how this would apply to trusts.

The term “controlling persons” must be interpreted in a manner consistent with the Financial Action Task Force Recommendations. For the purposes of identifying the controlling persons of a passive NFE, a Reporting NZFI may (subject to the following) rely on information collected and maintained pursuant to AML/KYC Procedures. Page 199 of the CRS Commentary sets out how this would apply in the context of pre-existing and new entity accounts.

This guidance explains how these principles will apply to the following types of passive NFEs:

- legal persons; and
- trusts and other legal arrangements.

For a passive NFE that is a legal person, page 198 of the CRS Commentary provides that the term “controlling person” means the natural person(s) who exercise control over the entity. “Control” over an entity is generally exercised by the natural person(s) who ultimately has a controlling ownership interest in the entity. A “controlling ownership interest”, in turn, depends on the ownership structure of the legal person and is usually identified on the basis of a threshold applying a risk-based approach (for example, any person(s) owning more than a certain percentage of the legal person, such as 25%). Where no natural person(s) exercises control through ownership interests, the controlling person(s) of the entity will be the natural person(s) who exercise control of the entity through other means. Where no natural person(s) is identified as exercising control of the entity, the controlling person(s) of the entity will be the natural person(s) who holds the position of senior managing official.

In the case of a passive NFE trust, the term “controlling persons” mean the settlor(s), the trustee(s), the protector(s) (if any), the beneficiary(ies) or classes of beneficiaries and any other natural person(s) exercising ultimate effective control over the trust. In the case of legal arrangements other than a trust, the term means persons in equivalent or similar positions.

The following points are relevant when determining whether persons connected with a passive NFE trust are “controlling persons” of the trust:

- The settlor(s), the trustee(s), the protector(s) (if any), the beneficiary(ies) or classes of beneficiaries of a trust must (subject to the following) always be treated as controlling persons of the trust, irrespective of whether any of them exercises control over the trust (see page 199 of the CRS Commentary).
- A settlor is a controlling person of a trust irrespective of whether the trust is a revocable trust or an irrevocable trust.
- If a person connected to a trust (such as a trustee) is an entity the Reporting NZFI will need to identify the natural persons that control that entity.
- For beneficiaries that are designated by characteristics or by class, a Reporting NZFI should obtain sufficient information concerning the beneficiary(ies) to satisfy it that it will be able to establish the identity of the beneficiary(ies) at the time of the pay-out or when the beneficiary(ies) intends to exercise vested rights. Therefore, that occasion will constitute a change in circumstances and will trigger the relevant procedures (see page 199 of the CRS Commentary). This could be relevant if, for example, a trust has a “children of the settlor” class of beneficiaries. A child within that class would not be a relevant controlling person that needs to be identified until they receive a distribution from the trust or intend to exercise vested rights.
- A specified discretionary beneficiary of a passive NFE trust will generally be a controlling person of the trust. However, a Reporting NZFI has the option of only treating such a beneficiary as being a controlling person of the trust if that person receives a distribution in a reporting period (see page 199 of the CRS Commentary). The meaning of “receives a distribution” in this context is when an amount is paid or payable to the beneficiary. A Reporting NZFI that chooses to adopt this option will need to have reasonable safeguards and

procedures⁵⁵ in place to determine when such a distribution has been made. This could include the Reporting NZFI having an arrangement with the trustee (possibly in terms and conditions) that the trustee will inform the Reporting NZFI when it has made such a distribution. There is no compulsion for a Reporting NZFI to adopt this option. A Reporting NZFI could simply choose to treat all beneficiaries as being controlling persons (in this context) if it considers that this would be preferable from an operational point of view.

If a Reporting NZFI maintains an account held by a passive NFE, and has identified the controlling persons, they must **then** determine whether any of those persons are relevant foreign tax residents. The process that the Reporting NZFI needs to follow (in this regard) depends on the balance or value of the account:

- The Reporting NZFI can, if the account has a balance or value that does not exceed USD 1,000,000 (which the Reporting NZFI can simply treat as NZD 1,000,000), rely on information they have collected and maintained pursuant to AML/KYC procedures to determine whether any of the controlling persons are relevant foreign tax residents. If the Reporting NZFI adopts these procedures, and determines that a controlling person is a relevant foreign tax resident, they will need to collect the passive NFE's TIN (or functional equivalent)⁵⁶ and the controlling person's name, address, TIN (or functional equivalent), and date of birth. However, this is subject to the exceptions/qualifications outlined below; or
- The Reporting NZFI must otherwise obtain a self-certification from the account holder (or controlling person) to determine whether any of the controlling persons are relevant foreign tax residents. If a self-certification is not provided, the Reporting NZFI should establish such residence by applying the pre-existing individual account indicia procedures (see above at paragraph 5.3). If a Reporting NZFI has no such indicia in its records, no further action will be required until there is a change in circumstances that results in one or more indicia with respect to the controlling person being associated with the account.

With respect to pre-existing entity accounts held by a passive NFE, such a self-certification of the controlling person's tax residence would only be valid if:

⁵⁵ See page 17 of the OECD's CRS Implementation Handbook.

⁵⁶ It is assumed, for these purposes, that the Reporting NZFI would already have the passive NFE's name and address in its records, so would not need to collect this information as well.

- it is signed (or otherwise positively affirmed) by the account holder (or controlling person) with authority to sign;
- it is dated at the latest at the date of receipt; and
- it contains each controlling person's:
 - name;
 - address;
 - jurisdiction(s) of residence for tax purposes;
 - TIN (or a functional equivalent, in the absence of a TIN) with respect to each foreign tax jurisdiction (subject to various exceptions/qualifications – outlined below);⁵⁷ and
 - date of birth (subject to the qualification outlined below).

A Reporting NZFI is generally not required to confirm the format and other specifications of a TIN with the information on the AEOI Portal. Reporting NZFIs may nevertheless wish to do so in order to enhance the quality of the information collected and minimise the administrative burden associated with any follow-up concerning reporting of an incorrect TIN.

Notwithstanding the general rule expressed above, a Reporting NZFI should be familiar with, and check for, the validity of TINs from another jurisdiction in which the Reporting NZFI or a related entity operates if:

- there are simple or standard rules for TINs in that jurisdiction (such as the structure or number of digits); and
- the IT systems used across the jurisdictions are shared or sufficiently similar that the validation task would not be onerous.

Exception: The Reporting NZFI is not required to obtain the controlling person's TIN (or functional equivalent) if either:

- the controlling person has not been issued with a TIN (or a functional equivalent). For example, if:

⁵⁷ The Reporting NZFI would also need to collect the passive NFE's TIN(s) (or functional equivalent, in the absence of a TIN).

- the controlling person’s jurisdiction of tax residence does not issue TINs (or a functional equivalent); or
- the controlling person’s jurisdiction of tax residence has not issued a TIN (or functional equivalent) to them. For example, the controlling person may be a child that has not been issued a TIN; or
- the controlling person’s jurisdiction of tax residence does not require the collection of the TIN issued by that jurisdiction.

If a person (either the account holder or controlling person) claims that a controlling person does not have to have a TIN (or functional equivalent):

- This statement should be part of the self-certification collected for the account, unless the Reporting NZFI reasonably determines, based on information on the OECD’s AEOI Portal, that the controlling person would not have a TIN for the relevant foreign jurisdiction.
- If the information included on the AEOI Portal indicates that the controlling person’s jurisdiction of tax residence issues TINs to all tax residents, the Reporting NZFI would have reason to know that the self-certification may be unreliable or incorrect and would be expected to seek either a valid (new) self-certification or a reasonable explanation as to why the controlling person’s TIN has not been provided.

Qualification: A Reporting NZFI may not have obtained the TIN (or functional equivalent) and date of birth information about a controlling person they have identified as being a relevant foreign tax resident. However, they are required to use reasonable efforts to obtain the controlling person’s TIN and date of birth by the end of the second reporting period following the period in which that person has been identified as being a Reportable Person.

5.5.4 Timeframe for completion of initial due diligence and reporting

Reporting NZFIs will need to have completed their initial review and any reporting (if the accounts are identified as reportable) of pre-existing entity accounts by 30 June 2019. Reporting NZFIs will have the option of taking advantage of the whole period up to 30 June 2019 to complete their due diligence on such accounts. However, this is provided that the account is reported by 30 June 2019 (if indeed it is identified as being reportable).

5.5.5 Record-keeping requirements

For record-keeping purposes, a Reporting NZFI will also need to keep a record of self-certifications obtained, the process they followed to obtain such certifications and a record of any failure to obtain

a self-certification (for example, when an account holder or controlling person does not provide a self-certification on request).

5.5.6 Change in circumstances

If there is a change of circumstances with respect to a Pre-existing Entity Account that causes the Reporting NZFI to know, or have reason to know, that the self-certification or other documentation associated with an account is incorrect or unreliable, the Reporting NZFI must re-determine the status of the account. The Reporting NZFI must adopt the following procedures by the later of the last day of the relevant reporting period or 90 calendar days following the notice or discovery of the change in circumstances:⁵⁸

- With respect to the determination whether the account holder is a relevant foreign tax resident, the Reporting NZFI must obtain either (i) a self-certification, or (ii) a reasonable explanation and documentation (as appropriate) supporting the reasonableness of the original self-certification or documentation (and retain a copy or a notation of that explanation and documentation). If the Reporting NZFI fails to either obtain a self-certification or confirm the reasonableness of the original self-certification or documentation, it must treat the account holder as being a Reportable Person with respect to both jurisdictions.
- With respect to the determination of whether the account holder is a financial institution,⁵⁹ active NFE or passive NFE, a Reporting NZFI must obtain additional documentation or a self-certification (as appropriate) to establish the status of the account holder. If the Reporting NZFI fails to do so, it must treat the account as a passive NFE.
- With respect to determining whether a controlling person is a relevant foreign tax resident, the Reporting NZFI must obtain either (i) a self-certification, or (ii) a reasonable explanation and documentation (as appropriate) supporting the reasonableness of the original self-certification or documentation (and retain a copy or a notation of that explanation and documentation). If a Reporting NZFI fails to obtain either a self-certification or confirm the reasonableness of a previously collected self-certification or documentation, it must rely on indicia of foreign tax residence in its records.

⁵⁸ See page 142 of the CRS Commentary.

⁵⁹ As noted at paragraphs 1.9 and 11.1.6 of this guidance, foreign financial institutions will not be relevant foreign tax residents (potentially subject to reporting) unless they are managed investment entities that are tax residents in jurisdictions that are not Participating Jurisdictions, and, therefore, are **deemed** to be passive NFEs.

5.6 New entity accounts⁶⁰

A new entity account is an account opened by a Reporting NZFI on or after 1 July 2017 that is held by an entity (for example, held by a trust, company, or partnership).

Reporting NZFIs are required to conduct due diligence on new entity accounts to determine:

- whether the entity is a relevant foreign tax resident;
- whether the entity is a passive NFE; and
- if the entity is a passive NFE, whether it has any controlling persons that are relevant foreign tax residents.

There is no de minimis threshold exemption from these procedures.

5.6.1 Whether the entity is a relevant foreign tax resident

The Reporting NZFI first needs to determine whether the entity is a foreign tax resident.

The Reporting NZFI needs to obtain a self-certification, which may be part of the account opening documentation, that allows it to determine the account holder's residence for tax purposes and to confirm the reasonableness of that self-certification based on the information it obtained in connection with the opening of the account (including any documentation it has collected pursuant to AML/KYC procedures).

If the self-certification indicates that the account holder is resident in a Reportable Jurisdiction, the Reporting NZFI must treat the account as being a reportable account unless it reasonably determines, based on information in its possession or that is publicly available (see above with regards to pre-existing entity accounts), that the account holder is not a Reportable Person.

The form, procedures, and timeframes that a Reporting NZFI would need to adopt for obtaining and validating such self-certifications are the same as those outlined above for new individual accounts.

A self-certification of the account holder's tax status would only be valid if:

- it is signed (or otherwise positively affirmed) by the account holder or person with authority to sign for the account holder;
- it is dated at the latest at the date of receipt; and
- it contains each account holder's:

⁶⁰ A Reporting NZFI is also able to choose to adopt these procedures for pre-existing entity accounts.

- name (i.e. the name of the entity);
- address;
- jurisdiction(s) of residence for tax purposes; and
- TIN (or a functional equivalent, in the absence of a TIN) for each foreign tax jurisdiction (subject to various exceptions – outlined below).

If the entity certifies that they have no residence for tax purposes, the Reporting NZFI may rely on the address of the entity’s principal office to determine its residency.

A Reporting NZFI is generally not required to confirm the format and other specifications of a TIN with the information on the AEOI Portal. Reporting NZFIs may nevertheless wish to do so in order to enhance the quality of the information collected and minimise the administrative burden associated with any follow-up concerning reporting of an incorrect TIN.

Notwithstanding the general rule expressed above, a Reporting NZFI should be familiar with, and check for, the validity of TINs from another jurisdiction in which the Reporting NZFI or a related entity operates if:

- there are simple or standard rules for TINs in that jurisdiction (such as the structure or number of digits); and
- the IT systems used across the jurisdictions are shared or sufficiently similar that the validation task would not be onerous.

Exceptions: The Reporting NZFI is not required to obtain the account holder’s TIN if either:

- The account holder has not been issued with a TIN (or a functional equivalent). For example, if:
 - the account holder’s jurisdiction of tax residence does not issue TINs (or a functional equivalent); or
 - the account holder’s jurisdiction of tax residence has not issued a TIN (or a functional equivalent) to them; or
 - the account holder’s jurisdiction of tax residence does not require the collection of the TIN issued by that jurisdiction.

If the account holder claims not to have a TIN (or functional equivalent):

- This statement should be part of the self-certification collected for the account, unless the Reporting NZFI reasonably determines, based on information on the OECD's AEOI Portal, that the person would not have a TIN for the relevant foreign jurisdiction.
- If the information included on the AEOI Portal indicates that the person's jurisdiction of tax residence issues TINs to all tax residents, the Reporting NZFI would have reason to know that the self-certification may be unreliable or incorrect and would be expected to seek either a valid (new) self-certification or a reasonable explanation as to why the person has not provided the TIN.

5.6.2 Whether the entity is a passive non-financial entity

A Reporting entity that maintains a new-existing entity account is **also** required to determine whether the account holder is a passive NFE. The same procedures outlined above for pre-existing entity accounts (at paragraph 5.5.2) apply equally here.

5.6.3 When an entity account holder is a passive non-financial entity – identifying controlling persons

If a Reporting NZFI has identified that a new entity account is held by a passive NFE it is required to:

- identify the entity's controlling persons; and
- determine whether those controlling persons are foreign tax residents.

For the purposes of determining the controlling persons of a passive NFE account holder, the Reporting NZFI should adopt the same procedures outlined above (at paragraph 5.5.3) for pre-existing entity accounts. Page 199 of the CRS Commentary also sets out how these procedures would apply in the context of new accounts held by passive NFE trusts.

If a Reporting NZFI maintains an account held by a passive NFE, **and** has identified the controlling persons, it must then determine whether any of those persons are relevant foreign tax residents by obtaining a self-certification (from the account holder or such controlling persons) as to whether any of those controlling persons are relevant foreign tax residents.

With respect to new entity accounts held by a passive NFE, a self-certification of the controlling person's tax residence would only be valid if:

- it is signed (or otherwise positively affirmed) by the account holder (or controlling person) with authority to sign;

- it is dated at the latest at the date of receipt; and
- it contains each controlling person's:
 - name;
 - address;
 - jurisdiction(s) of residence for tax purposes;
 - TIN (or functional equivalent, in the absence of a TIN) with respect to each foreign tax jurisdiction (subject to various exceptions – outlined below);⁶¹ and
 - date of birth.

A Reporting NZFI is generally not required to confirm the format and other specifications of a TIN with the information on the AEOI Portal. Reporting NZFIs may nevertheless wish to do so in order to enhance the quality of the information collected and minimise the administrative burden associated with any follow-up concerning reporting of an incorrect TIN.

Notwithstanding the general rule expressed above, a Reporting NZFI should be familiar with, and check for, the validity of TINs from another jurisdiction in which the Reporting NZFI or a related entity operates if:

- there are simple or standard rules for TINs in that jurisdiction (such as the structure or number of digits); and
- the IT systems used across the jurisdictions are shared or sufficiently similar that the validation task would not be onerous.

Exception: The Reporting NZFI is not required to obtain the controlling person's TIN (or functional equivalent) if either:

- The controlling person has not been issued with a TIN (or functional equivalent). For example, if:
 - the controlling person's jurisdiction of tax residence does not issue TINs (or functional equivalent); or

⁶¹ The Reporting NZFI would also need to collect the passive NFE's TIN.

- the controlling person’s jurisdiction of tax residence has not issued a TIN (or functional equivalent) to them. For example, the person may be a child that has not been issued a TIN); or
- the controlling person’s jurisdiction of tax residence does not require the collection of the TIN issued by that jurisdiction.

If a person (either the account holder or controlling person) claims that a controlling person does not have to have a TIN:

- This statement should be part of the self-certification collected for the account, unless the Reporting NZFI reasonably determines, based on information on the OECD’s AEOI Portal, that the controlling person would not have a TIN for the relevant foreign jurisdiction.
- If the information included on the AEOI Portal indicates that the controlling person’s jurisdiction of tax residence issues TINs to all tax residents, the Reporting NZFI would have reason to know that the self-certification may be unreliable or incorrect and would be expected to seek either a valid (new) self-certification or a reasonable explanation as to why the controlling person’s TIN has not been provided.

5.6.4 Record-keeping requirements

For record-keeping purposes, a Reporting NZFI will also need to keep a record of self-certifications obtained, the process they followed to obtain such certifications, and a record of any failure to obtain a self-certification (for example, when an account holder or controlling person does not provide a self-certification on request).

5.6.5 Change in circumstances

Page 148 of the CRS Commentary provides that if there is a change in circumstances with respect to a new entity account that causes the Reporting NZFI to know, or have reason to know, that the self-certification or other documentation associated with an account is incorrect or unreliable, the Reporting NZFI must re-determine the status of the account. The procedures that the Reporting NZFI would need to follow in this regard are the same as the procedures when there is a change in circumstances for pre-existing entity accounts (referred to above at paragraph 5.5.6).

6 Outline of the CRS information that needs to be reported

This guidance has so far outlined the following points:

- the circumstances when an entity will be a Reporting NZFI; and

- the due CRS diligence obligations that Reporting NZFIs have to identify reportable accounts and undocumented accounts.

This then raises the question of what information a Reporting NZFI will need to report to Inland Revenue if an account is reportable.

In broad terms, a Reporting NZFI will be required to report to Inland Revenue prescribed identity and financial account information about a financial account it maintains in the following circumstances:⁶²

- the Reporting NZFI has identified that the account is held (and/or, in the case of a passive NFE, controlled) by a Reportable Person from a Reportable Jurisdiction; or
- the Reporting NZFI has decided to adopt the wider approach to reporting and has identified that the account is held (and/or, in the case of a passive NFE, controlled) by a relevant foreign tax resident.

Reporting NZFIs must report two types of information about such accounts:

- identity information about the relevant foreign tax resident account holder (and foreign tax-resident controlling person – in the case of accounts held by passive NFEs); and
- financial account information – for example, the account balance or value and payments made to the account holder.

These reporting requirements will apply on an annual basis (i.e. by 30 June of the relevant year). In other words, Reporting NZFIs that have identified an account as reportable should continue to report the account annually to Inland Revenue unless there is a change in circumstances that means that the account is not reportable.

A Reporting NZFI that does not have any accounts to report for a particular reporting period will also have the option of providing a nil report.

This guidance now outlines in detail the identity and financial account information that Reporting NZFIs need to report annually about any reportable accounts it has identified.

⁶² Reporting NZFIs also need to report accounts that they have identified as being undocumented accounts. The circumstances when an account will be an undocumented account are outlined at paragraphs 1.6, 5.3.2 and 5.3.3 of this guidance.

6.1 Identity information that Reporting NZFIs will need to report for a reportable account

Reporting NZFIs will generally need to annually report the following identity information to Inland Revenue about reportable accounts:

- The name, address, jurisdiction(s) of residence, TIN(s)⁶³ and date of birth in the case of any individual account holder that is a Reportable Person. **(This requirement would apply to all relevant foreign tax residents if the Reporting NZFI adopted the wider approach to reporting).**
- The name, address, jurisdiction(s) of residence and TIN(s) of any entity account holder that is a Reportable Person. **(This requirement would apply to all relevant foreign tax residents if the Reporting NZFI adopted the wider approach to reporting.)**
- In the case of any passive NFE account holder that is identified as having one or more controlling persons that is a Reportable Person:
 - the name, address, jurisdiction(s) of residence, TIN(s) of the passive NFE; and
 - the name, address, jurisdiction(s) of residence, TIN(s), and date of birth of the controlling person (or persons).

(This requirement would apply to all relevant foreign tax residents if the Reporting NZFI adopted the wider approach to reporting.)

- The account number (or functional equivalent in the absence of an account number).
- The name and identifying number (if any) of the Reporting NZFI.

This guidance now provides some further context to some of the identification information that Reporting NZFIs need to provide and the exceptions/qualifications that apply.

TIN

A Reporting NZFI generally needs to report a TIN (or functional equivalent, in the absence of a TIN) for reportable accounts (i.e. the TIN of the relevant foreign tax resident account holder or controlling person). However, there are some important exceptions and qualifications to this.

⁶³ As noted above, in the absence of a TIN, the functional equivalent should be collected and reported.

Exception: A TIN (or functional equivalent) is not required to be obtained and reported if:

- the person has not been issued with a TIN (or functional equivalent). For example, if:
 - the person's jurisdiction of tax residence does not issue TINs (or functional equivalent); or
 - the person's jurisdiction of tax residence has not issued a TIN (or functional equivalent) to them; or
- the person's jurisdiction of tax residence does not require the collection of TINs issued by that jurisdiction.

Qualification: Furthermore, a Reporting NZFI that identifies that an account holder (or controlling person) of a reportable **pre-existing** account is a relevant foreign tax resident, and does not otherwise have the person's TIN (or functional equivalent) in its records, will also only be required to use reasonable efforts to obtain and report the TIN (or functional equivalent) by the end of the second reporting period following the period in which the account is identified as being held (or controlled) by a Reportable Person.

Date of birth

A Reporting NZFI generally needs to report date of birth information of the relevant individual account holder (or controlling person) for reportable accounts (i.e. the date of birth information of the relevant foreign tax resident account holder or controlling person).

Qualification: However, a Reporting NZFI that identifies that an account holder (or controlling person) of a **pre-existing** account is a relevant foreign tax resident, and does not otherwise have the person's date of birth in their records, will only be required to use reasonable efforts to obtain and report the date of birth by the end of second reporting period following the period in which the account is identified as being held (or controlled) by a Reportable Person.

It should be further noted that, while the date of birth must be reported, the place of birth is not required to be reported, and should not be reported to Inland Revenue.

6.2 Financial account information that Reporting NZFIs will need to report for a reportable account

Reporting NZFIs will also need to report the following financial information about reportable accounts:

- The account balance or value as at the end of the reporting period (i.e. 31 March) or, if the account was closed during that period, the closure of the account.

- In the case of a custodial account:
 - the total gross amount of interest paid or credited to the account (or with respect to the account) during the relevant period ending 31 March;
 - the total gross amount of dividends paid or credited to the account (or with respect to the account) during the relevant period ending 31 March;
 - the total gross amount of other income generated with respect to the assets held in the account and paid or credited to the account (or with respect to the account) during the relevant period ending 31 March; and
 - the total gross proceeds from the sale or redemption of financial assets paid or credited to the account (or with respect to the account) during the relevant period ending 31 March with respect to which the Reporting NZFI acted as a custodian, broker, nominee or otherwise as an agent for the account holder.
- In the case of a depository account, the total gross amount of interest paid or credited to the account during the relevant period ending 31 March.
- In the case of any other type of account, the total gross amount paid or credited to the account holder with respect to the account during the relevant period ending 31 March with respect to which the Reporting NZFI is the obligor or debtor. This includes the aggregate amount of any redemption payments made to the account holder during the reporting period.

Where an account is jointly held, each holder of the account is attributed the entire balance or value of the joint account, as well as the entire amounts paid or credited to the joint account (or with respect to the joint account).

This guidance now provides some further context to the financial information that Reporting NZFIs need to report about such reportable accounts.

Account balance or value

Reporting NZFIs are (subject to the following) required to report the account balance or value of a reportable account as of the end of the relevant period ending 31 March.

However, if an account was closed during that period, the Reporting NZFI must report the closure of the account. An account will be considered to be closed according to the Reporting NZFI's normal operating procedures that are consistently maintained for all accounts. In most cases, it will be fairly self-explanatory as to whether an account has been closed. An equity or debt interest account would

generally be considered to be closed upon termination, transfer, surrender, redemption, cancellation or liquidation. An account with a balance or value equal to zero or that is negative will not be considered to be closed solely by reason of having such a balance or value.⁶⁴

If the account was closed during the period, the Reporting NZFI must report that the account was closed, but not the account balance or value before or at the time of closure. This is a key difference between the CRS and FATCA. For FATCA, it is the balance immediately prior to closure that needs to be reported.

The following points are relevant when determining the account balance or value:

- In general, the balance or value of a financial account is the balance or value calculated by the Reporting NZFI for purposes of reporting to the account holder (see paragraph 12 on page 98 of the CRS Commentary). However, as explained below, other methods are permissible where the Reporting NZFI does not report to the account holder.
- The balance or value of depository financial accounts in a Reporting NZFI is self-explanatory (i.e. it would simply be the funds held in the account).
- The balance or value of an equity interest financial account is the value calculated by the Reporting NZFI for the purpose that requires the most frequent determination of value (which may be for reporting/investment purposes). If the Reporting NZFI has not otherwise recalculated the balance or value for other reasons (such as reporting/investment purposes), the balance or value will be the value of the interest upon acquisition or otherwise will be the total value of the Reporting NZFI's property (see page 82 of the OECD's CRS Implementation Handbook).
- The balance or value of a debt interest financial account is its principal amount.
- In the case of a cash value insurance contract or an annuity contract financial account, the account balance or value includes the cash value⁶⁵ or surrender value.
- The balance or value of a financial account is not to be reduced by any liabilities or obligations incurred by an account holder with respect to the account or any of the assets held in the account.

⁶⁴ See page 99 of the CRS Commentary.

⁶⁵ The meaning of "cash value" is outlined in detail in paragraph 3.1.4.2 of this guidance.

- Where a financial account is jointly held, each holder of the account is attributed the entire balance or value of the joint account, as well as the entire amounts paid or credited to the joint account (or with respect to the joint account).
- A financial account with a balance or value that is negative must be reported as having an account balance or value equal to zero.
- Where an account is held by a Passive NFE with more than one controlling person that is a Reportable Person, each controlling person is attributed the entire balance or value of the account held by the Passive NFE, as well as the entire amounts paid or credited to the account. **(This requirement would apply to all relevant foreign tax residents if the Reporting NZFI adopted the wider approach to reporting.)**
- Where an account is held by an account holder that is a Reportable Person who is identified as having more than one jurisdiction of residence, the entire balance or value of the account, as well as the entire amount paid or credited to the account, must be reported with respect to each jurisdiction of residence of the account holder. **(This requirement would apply to all relevant foreign tax residents if the Reporting NZFI adopted the wider approach to reporting.)**
- Where an account is held by a Passive NFE with a controlling person that is a Reportable Person and is identified as having more than one jurisdiction of residence, the entire balance or value of the account held by the Passive NFE, as well as the entire amount paid or credited to the account, must be reported with respect to each jurisdiction of residence of the controlling person. **(This requirement would apply to all relevant foreign tax residents if the Reporting NZFI adopted the wider approach to reporting.)**
- Where an account is held by a Passive NFE that is a Reportable Person with a controlling person that is a Reportable Person, the entire balance or value of the account held by the Passive NFE, as well as the entire amount paid or credited to the account, must be reported with respect to both the Passive NFE and the controlling person. **(This requirement would apply to all relevant foreign tax residents if the Reporting NZFI adopted the wider approach to reporting.)**

Gross proceeds

A clearing or settlement organisation that maintains accounts, and settles sales and purchases may not know the gross proceeds from sales and dispositions. Where this is the case, gross proceeds are limited to the net amount paid or credited to a member's account that is associated with sales or other dispositions of financial assets by that member as of the time that the transactions are settled under the organisation's settlement procedures (see paragraph 18 on page 100 of the CRS Commentary). With respect to a sale that is effected by a broker that results in a payment of gross proceeds, the date the gross proceeds are considered paid is the date that the proceeds of sale are credited to the account of, or made available to, the person entitled to the payment.

Currency

The information that the Reporting NZFI reports must identify the currency in which each account is denominated (compared with how a currency conversion can be used for due diligence purposes).

7 Format that a Reporting NZFI can use for reporting CRS information

Inland Revenue is currently considering the format that Reporting NZFIs will be able to use for reporting such CRS information. Three approaches are being considered:

- XML file upload
- Template spread-sheet
- Online form (IR site)

Inland Revenue intends to provide further guidance on the reporting formats that Reporting NZFIs will be able to use.

8 CRS record-keeping obligations

8.1 Obligation to keep and retain records

Reporting NZFIs will also (in addition to their other CRS due diligence and reporting obligations) be required to keep records of the steps they have taken and the evidence they have relied upon for the performance of their CRS obligations. This includes a specific requirement for these NZFIs to keep a record of any failure to obtain a required self-certification. These specific CRS obligations are set out in sections 22(2)(1d) and (1e) of the Tax Administration Act 1994 and reflect the expectations set out in section IX(A)(1) of the CRS.

These record-keeping requirements will also assist Inland Revenue in monitoring and verifying a Reporting NZFI's compliance with the CRS and addressing any non-compliance (including considering the application of any penalties).

In accordance with section 25 of the Electronic Transactions Act 2002, Reporting NZFIs have the option of using technology to store source paper documents by electronic means. The main requirements to retain records (in this way) under that Act, whether the records were originally in paper form or electronic form, are that:

- the integrity of the information contained in the records is to be maintained; and
- the information is readily accessible so as to be usable for future reference.

Further conditions for legal requirements to retain records under the Inland Revenue Acts are provided in schedule 1, clause 4 of the Electronic Transactions Regulations 2003.

Accordingly, a Reporting NZFI is able to hold its records in either paper-based form or electronic copies. Records do not need to be the original, and can encompass certified copies, or photocopies (including by microfiche, electronic scan or similar means of electronic storage). As explained further below, there is also sometimes scope for a Reporting NZFI to keep a notation of information or documentation reviewed in defined circumstances.

However, to the extent that information is held electronically, Reporting NZFIs must be able to produce to the Commissioner a paper copy. For example, a NZFI that operates a document imaging system will not need to retain original documents for CRS purposes as long as it can easily produce an imaged copy which can be converted into paper form if requested by the Commissioner.

8.1.1 Records to be in English and retained in New Zealand

In accordance with the general tax record-keeping requirements set out in section 22(2BA) of the Tax Administration Act 1994, a Reporting NZFI must also retain such records in English, in New Zealand. Records must be able to be produced to the Commissioner, in English, when requested.

However, in accordance with section 22(8)(a) of the Tax Administration Act 1994, Reporting NZFIs may upon application in writing to the Commissioner:

- to keep and retain a record or type of record:
 - in a language other than English:
 - in a place outside New Zealand.

If the Commissioner approves the application, she may impose any conditions she thinks necessary, and may subsequently vary or withdraw the authorisation.

8.1.2 Period of retention of records

The proposed approach is that Reporting NZFIs will need to keep such records:

- for seven years from the end of the relevant reporting period in accordance with section 22(2) of the Tax Administration Act 1994. This is in line with the FATCA record-keeping period.

This includes a specific requirement to keep a record of any failure to obtain a self-certification.

This will enable Inland Revenue to request a copy of such records (if necessary) to determine whether the Reporting NZFI has complied with its due diligence and reporting obligations.

The guidance now outlines how these record-keeping requirements will apply in the following circumstances:

- When a Reporting NZFI relies on publicly available information as part of CRS due diligence (i.e. what records does the NZFI need to keep about the publicly available information it has relied on).
- When a Reporting NZFI relies on documentary evidence obtained as part of CRS due diligence (i.e. what records does the NZFI need to keep about the documentary evidence it has relied on).
- When a Reporting NZFI relies on a self-certification obtained as part of CRS due diligence (i.e. what records does the NZFI need to keep about a self-certification it obtains).
- When a self-certification would otherwise fail the “reasonableness test” and a Reporting NZFI gathers further information to determine the veracity of the self-certification (i.e. what records does the NZFI need to keep about such information).
- When there has been a change in circumstances that calls into question a self-certification a Reporting NZFI has obtained and it has gathered further information to determine the validity of the self-certification (i.e. what records does the NZFI need to keep about such information?).
- The procedures adopted by a Reporting NZFI as part of the requirement to use “reasonable efforts” to obtain TINs for pre-existing accounts held or controlled by Reportable Persons (i.e. what records does the NZFI need to keep about the steps that it follows for obtaining TINs for such accounts?).

This is not an exhaustive list of circumstances where a Reporting NZFI will have CRS record-keeping obligations. However, it does set out some of the key areas where a Reporting NZFI will have such obligations. The reader should refer to the CRS Commentary for further detail about the

range of circumstances where they will need to keep records of the steps that they have undertaken and the evidence they have relied upon in carrying out their CRS due diligence and reporting.

8.1.3 Publicly available information

The CRS provides that, in certain defined circumstances, a Reporting NZFI is able to rely on “publicly available” information when carrying out CRS due diligence. For example, by using information published by an authorised government body, information in a publicly accessible register, information disclosed on an established securities market or any publicly accessible classification determined on an industry coding system in order to identify whether or not an entity account holder is a Reportable Person (see section V(C)(1)(b) and section VI(A)(1)(b)).

If a Reporting NZFI relies upon “publicly available” information in carrying out CRS due diligence, it must retain a notation of the type of information reviewed, and the date it was reviewed.⁶⁶ The notation will form part of the records the Reporting NZFI is required to retain.

8.1.4 Due diligence – documentary evidence

The CRS also provides scope in certain defined circumstances for a Reporting NZFI to rely on documentary evidence⁶⁷ when carrying out CRS due diligence. The relevant types of documentary evidence are summarised in Appendix 3.

If a Reporting NZFI has relied on such documentary evidence when carrying out its CRS due diligence, it will need to keep a record of that evidence.

A Reporting NZFI does not need to retain original documentary evidence. The evidence may be a certified copy, a photocopy (including a microfiche, electronic scan, or similar means of electronic storage), or at least a notation of the type of documentation reviewed, the date the documentation was reviewed, and the document’s identification number (if any) (for example, a passport number). Any documentation that is stored electronically must be made available in hard copy form upon request.⁶⁸

A Reporting NZFI may also accept a copy of documentary evidence electronically if the electronic system ensures that the information received is the information sent, and documents all occasions of user access that result in the submission, renewal or modification of the documentary evidence (see page 205 at paragraph 158 of the CRS Commentary). The system must also ensure that the person accessing it and furnishing the documentary evidence is the person named on the documentary evidence. Reporting NZFIs should keep a record of such steps, which must be able to be provided to the Commissioner on request.

⁶⁶ See page 137, paragraph 12 of the CRS Commentary.

⁶⁷ In general, a Reporting NZFI must obtain documentary evidence on an account-by-account basis. However, a Reporting NZFI may rely upon the documentary evidence furnished by a customer for another account if both accounts are treated as a single account for purposes of satisfying the standards of knowledge requirements in paragraph A of section VII of the CRS (see page 205 of the CRS Commentary).

⁶⁸ See page 205, paragraph 157 of the CRS Commentary.

8.1.5 Self-certifications

8.1.5.1 Copy of self-certification

As noted above, the CRS often requires Reporting NZFIs to obtain self-certifications from account holders (and in certain circumstances controlling persons) as to whether or not they are foreign tax residents.

A Reporting NZFI must retain a copy of these self-certifications. This may be an original, certified copy or photocopy (including a microfiche, electronic scan or similar means of electronic storage). If stored electronically, the electronic system must ensure that the information received is the information sent, and must document all occasions of user access including the submission, renewal or modification of a self-certification. The system must also ensure that the person accessing the system and furnishing the self-certification is the person named in the self-certification. A Reporting NZFI must be able to provide on request a hard copy of all electronic self-certifications.⁶⁹

A self-certification may be signed (or otherwise positively affirmed) by any person authorised to sign on behalf of the account holder (or controlling person) under domestic law. The self-certification, authorisations to sign and details of user access must be able to be made available to the Commissioner in hard copy upon request. These obligations align with the requirement for a Reporting NZFI to keep records (available for request by the Commissioner) of the steps undertaken and evidence relied upon for the purposes of undertaking due diligence.

Reporting NZFIs are also required to keep a record of any failure to obtain a self-certification. This will assist with monitoring and verifying compliance with CRS.

8.1.5.2 Positive affirmation

As noted above, for a self-certification to be valid, the CRS requires that it must be signed or “otherwise positively” affirmed by the relevant account holder or (if applicable) controlling person. In addition to manually signed self-certifications, this allows the self-certification to be completed online or orally, including over the phone.

In accordance with an answer to a “Frequently Asked Question”, the OECD has confirmed (see <https://www.oecd.org/tax/automatic-exchange/common-reporting-standard/CRS-related-FAQs.pdf>) that a self-certification will be “otherwise positively affirmed” if the person making the self-certification provides the Reporting NZFI with an unambiguous acknowledgment that they agree with the representations made through the self-certification. In all cases, the positive self-certification is expected to be captured by the Reporting NZFI in a manner such that it can credibly demonstrate that the self-certification was positively affirmed (for example, by voice recording, digital footprint etc.) The approach taken by the Reporting NZFI in obtaining the self-certification is expected to be in a manner consistent with the procedures they follow for the opening of the account. The Reporting NZFI will need to maintain a record of this process for audit purposes, in addition to

⁶⁹ See page 129, paragraph 9 of the CRS Commentary.

the self-certification itself. This aligns with the requirement that a Reporting NZFI keeps a record of **both** the steps undertaken (which would cover such processes) and evidence that it has relied on (which would cover the self-certification itself) in carrying out CRS due diligence.

8.1.5.3 Incorrect or unreliable self-certifications/change of circumstances

As noted above, a Reporting NZFI cannot rely upon a self-certification for CRS due diligence purposes if it knows, or has reason to know, that the self-certification is incorrect or unreliable.

If a Reporting NZFI has carried out CRS due diligence on a financial account and, as part of that process, obtained a self-certification about the tax residence of an account holder (or, if applicable, controlling person), and there is a change of circumstances that causes a Reporting NZFI to know that the original self-certification is incorrect or unreliable, the Reporting NZFI cannot rely upon the original self-certification. The Reporting NZFI would need to obtain either a valid self-certification that establishes the residence for the tax purposes of the account holder (or, if applicable, controlling person), or a reasonable explanation and documentation (as appropriate) supporting the validity of the original self-certification.

If the Reporting NZFI obtains a **new** self-certification it would need to keep a record of that self-certification – just like any other self-certification it obtains.

If the Reporting NZFI relies on a reasonable explanation and documentation supporting the validity of the **original self-certification** it will be required to retain a copy or a notation of the explanation and documentation.⁷⁰ This is in addition to the requirement to keep a record of the **self-certification itself**.

8.1.6 Reasonable efforts to obtain a TIN

As noted above, if a Reporting NZFI maintains a pre-existing account that is held (and/or, in the case of a passive NFE, controlled) by a relevant foreign tax resident, and it does not have the person's TIN (or functional equivalent) in its records, it is required to use reasonable efforts to obtain the person's TIN by the end of the second reporting period following the period in which the account is identified as being held (and/or controlled) by a Reportable Person.

“Reasonable efforts” in this context means genuine attempts to obtain the TIN, which must be made at least once a year by, for example, contacting the account holder by mail, in person or by phone, including a request made as part of other documentation or electronically (for example, by facsimile or by email) and reviewing electronically searchable information maintained by a related entity of the Reporting NZFI.⁷¹

⁷⁰ See page 130 of the CRS Commentary.

⁷¹ See page 103 of the CRS Commentary.

The only exceptions to this are if either:

- the Reportable Person is tax-resident in a jurisdiction that does not issue TINs or a functional equivalent (or has not had a TIN or a functional equivalent issued to them); or
- the Reportable Person is tax-resident in a jurisdiction that does not require the collection of TINs.

It is expected that a Reporting NZFI would keep a record of the steps that it undertakes to obtain TINs in such circumstances and the evidence of how those policies and procedures are followed.⁷² This will assist Inland Revenue in monitoring compliance and, in particular, determining whether the Reporting NZFI has made reasonable efforts to obtain TINs in such circumstances.

A procedural manual describing appropriate “reasonable efforts” can be a record describing the “steps” undertaken provided there is also evidence as to how those policies and procedures are followed. In the case of a mail merge, for example, this would not require a Reporting NZFI to keep actual copies of the letters sent, but it must be able to provide, upon request, the document that contains the information that is the same in each version and the data file where the unique information is stored.⁷³

9 Penalties regime

This guidance will now, having outlined the obligations Reporting NZFIs have to carry out CRS due diligence (including record keeping) and reporting, set out the penalties regime that will apply if there is non-compliance.

Section IX(A)(5) of the CRS provides that implementing jurisdictions (such as New Zealand) are required to have rules and administrative procedures in place to ensure effective implementation of, and compliance with, the CRS due diligence and reporting procedures.

Therefore, a comprehensive suite of obligations and penalties have been introduced to assist with achieving CRS compliance and to address non-compliance.

These obligations cover:

- reporting NZFIs; and
- account holders (and other persons connected with accounts – such as intermediaries that hold funds for other persons, and controlling persons).

⁷² See page 209 of the CRS Commentary.

⁷³ See page 209, at paragraph 9 of the CRS Commentary.

The specific types of penalties that will be imposed under New Zealand legislation are outlined in detail further below. Some of these penalties also apply for the purposes of FATCA, where similar compliance issues arise.

9.1 Penalties regime – financial institutions

In brief terms, financial penalties will apply to Reporting NZFIs that fail to undertake their due diligence obligations, fail to report the requisite information, or who provide inaccurate or false information (i.e. Reporting NZFIs that fail to comply with their CRS obligations under Part 11B of the Tax Administration Act 1994). This includes:

- civil absolute liability penalties;
- civil penalties for failing to take reasonable care; and
- criminal knowledge-based penalties.

These penalties are all mutually exclusive. For example, if a penalty is imposed on a Reporting NZFI for a failure to take reasonable care an additional absolute liability penalty would not be able to be imposed for that same failure.

This guidance now outlines how these “financial institution” penalties would apply in practice.

9.1.1 Civil absolute liability penalties

A Reporting NZFI that does not comply with its CRS obligations could (depending on the circumstances) be liable for the following absolute liability penalties:

Section 142H(1) of the Tax Administration Act 1994: \$300 per failure (capped at \$10,000 per reporting period) to comply with any CRS obligation (other than failing to obtain a self-certification for a new account – see below). This will be subject to the following defences:

- that the failure was due to circumstances beyond the Reporting NZFI’s control; and
- for a transitional period ending 30 June 2019, that the Reporting NZFI made reasonable efforts to meet its CRS requirements (including making reasonable efforts to correct any failure within a reasonable period of time after becoming aware of the failure).

Section 142H(3) of the Tax Administration Act 1994: \$300 per account (capped at \$10,000 per reporting period) for failure to obtain a required self-certification on account opening. This will be subject to the following defence:

- for a transitional period ending 30 June 2019, that the Reporting NZFI made reasonable efforts to meet its CRS requirements (including making reasonable efforts to correct any failure within a reasonable period of time after becoming aware of the failure).

The expressions “reasonable efforts” and “reasonable period” are not explicitly defined in the CRS or domestic tax legislation. As a general guideline, “reasonable” is what is fair, proper or appropriate in the circumstances. The “reasonableness” concept can also be found in the CRS due diligence procedures as well as being a familiar legal concept. For example, in the CRS a Reporting NZFI:

- cannot rely on documentary evidence or a self-certification that it has reason to know is incorrect or unreliable;⁷⁴
- must undertake a “reasonableness” review of all new account self-certifications;⁷⁵ and
- must make reasonable efforts to obtain TINs and date of birth of pre-existing accounts within two years of the end of the reporting period when an account is identified as being held or controlled by a Reportable Person. The CRS Commentary provides helpful guidance of what is reasonable in this context.⁷⁶

In simple terms, “reasonable effort” and “reasonable period” should be assessed in terms of what a prudent Reporting NZFI would consider appropriate in the same or similar circumstances.

As assessment of whether a Reporting NZFI has made “reasonable efforts” or rectified an error within a “reasonable period” of time will depend on matters such as the nature of the failure/error (including whether reasonable procedures were in place) and how difficult it would be to rectify the error.

What may constitute “reasonable efforts” may **also** depend on the type of account (i.e. pre-existing or new). For example, the CRS Commentary acknowledges (at page 103, paragraph 28) that “reasonable efforts” in the context of pre-existing individual account due diligence would not necessarily involve the Reporting NZFI closing, blocking or transferring the account, nor conditioning or otherwise limiting its use if the Reporting NZFI is unable to obtain CRS information (such as an account holder’s TIN). However, the CRS Commentary is also clear that a more rigorous standard is required for new account due diligence. For example, page 211 of the CRS Commentary sets out the base expectation that valid self-certifications will **always** be obtained for new accounts. The meaning of “reasonable efforts” in the defence to the imposition of penalties under section 142H(1) and (3) needs to be read in this context (i.e. a higher standard is required to

⁷⁴ See pages 149 to 152 of the CRS Commentary.

⁷⁵ See page 133 of the CRS Commentary.

⁷⁶ See pages 102 to 104 of the CRS Commentary.

meet this level of reasonable efforts for new accounts. This reflects the fact that the Reporting NZFI has more control for new accounts. For example, it could simply not open an account if an account holder fails to provide a self-certification.

9.1.1.1 “Failure” to meet a CRS requirement (other than obtaining a self-certification) under section 142H(1)

A penalty will (subject to the application of the defences) be imposed under section 142H(1) of the Tax Administration Act 1994 for a “failure” to comply with a CRS obligation (other than an obligation to obtain a self-certification for a new account).

The following principles are relevant when determining what constitutes a “failure” in this regard:

- The CRS is concerned with Reporting NZFIs obtaining and (where relevant) reporting “financial account” information. In this context, a “failure” under section 142H(1) would generally be an error that relates to a **single account** (i.e. failure to carry out sufficient due diligence or reporting in relation to a single account).
- If a Reporting NZFI fails to carry out due diligence on a particular account and, as a result of that error, does not report the account this would **generally** also be considered a single “failure” (as opposed to two failures). This is because the reporting error is, essentially, a corollary of the due diligence failure.
- A systemic error that incidentally affects a number of accounts would generally constitute a single failure.

There is a \$10,000 cap that will apply for penalties in a particular period under section 142H(1).

***Example 1:** A Reporting NZFI fails to carry out due diligence on one of its pre-existing entity accounts by 30 June 2019 (the deadline for carrying out the initial review of such accounts).*

This would constitute a “failure” under section 142H(1). The issue of whether a penalty could be imposed under section 142H(1) would be a question of fact and would depend on whether any of the defences apply.

***Example 2:** A Reporting NZFI reports its CRS information for the first reporting period on 20 June 2018. The Reporting NZFI’s computer system has a virus that corrupts 30 of the accounts that it reports.*

This means that the Reporting NZFI’s report contains errors related to 30 accounts. This would constitute a single “failure” under section 142H(1), not 30 failures. The issue of whether a penalty would be imposed under section 142H(1) would be a question of fact and would depend on whether any of the defences apply.

Example 3: A Reporting NZFI carries out CRS due diligence on a pre-existing individual account held by Tom. The Reporting NZFI identifies that Tom is a foreign tax resident that is a Reportable Person. The Reporting NZFI does not have Tom's TIN and date of birth in its records. Therefore, the Reporting NZFI is required to take reasonable efforts to obtain Tom's TIN and date of birth by the end of the second reporting period following the period in which it identified Tom's account as being a Reportable Account. The Reporting NZFI does not make genuine efforts to obtain this information from Tom at least once a year during the period between identifying the account as a Reportable Account and the end of the second reporting period following the period of the identification.

A penalty of \$300 could be imposed on the Reporting NZFI under section 142H(1).

9.1.1.2 "Failure" to obtain a self-certification under section 142H(3)

A penalty will also be able to be imposed under section 142H(3) where a Reporting NZFI fails to obtain a self-certification for a new account, subject to the "reasonable efforts" defence ending on 30 June 2019.

Section 142H(3) is specifically worded so that the "failure" is on a **per account** basis (i.e. if there is failure to obtain one or a number of self-certifications for a particular account a penalty of \$300 will apply. There is a \$10,000 cap that could apply for penalties in a particular period under section 142H(3).

*Example 1: On 1 September 2017 Bob attempts to open a depository account with a Reporting NZFI bank. The Reporting NZFI seeks a self-certification from Bob. Bob does not provide a self-certification. The Reporting NZFI completes the account opening process **even though** Bob has not provided the required self-certification. This includes allowing Bob to deposit NZD 10,000 into the account.*

The CRS provides (in this regard) that such self-certifications must always be obtained for new accounts. As noted above, the OECD has confirmed in an answer to a "Frequently Asked Question" that self-certifications must generally be obtained at "day one of the account opening process".

Reporting NZFI has failed to obtain a self-certification from Bob on his account opening (a "failure" under section 142H(3)). The Reporting NZFI **could** have simply not opened the account in the first place (i.e. made the opening of the account contingent on obtaining Bob's self-certification). The Reporting NZFI's decision to open the account **without** first obtaining Bob's self-certification was **not a reasonable step**.

Therefore, the Reporting NZFI has not made "reasonable efforts" to obtain a self-certification from Bob on account opening. Accordingly, a penalty of \$300 could be imposed on the Reporting NZFI under section 142H(3).

The Reporting NZFI would **also** be expected to take reasonable steps to **continue** to try to obtain the required self-certification from Bob. These reasonable steps could, depending on the circumstances, involve needing to close the account if Bob continues to refuse to provide the self-certification for a

material period of time. This is consistent with the expectation (as outlined above) that a self-certification will always be obtained for new accounts.

Example 2: On 1 October 2017 Cameron attempts to open a depository account with a Reporting NZFI. The Reporting NZFI seeks a self-certification from Cameron. Cameron advises that he cannot provide a self-certification on that day because he does not have all of the information with him to make the certification. The Reporting NZFI informs Cameron that it can undertake account pre-opening procedures (including allocating a number to Cameron for administrative purposes), but that the account will not be opened, and indeed, the account opening procedures cannot be progressed, until he provides the self-certification (i.e. the Reporting NZFI informs Cameron that he will not be able to deposit funds into the account and/or make transactions with respect to the account until he provides the certification). Cameron does not provide a self-certification. The Reporting NZFI keeps a record of Cameron's failure to provide the self-certification.

The Reporting NZFI has not obtained a self-certification from Cameron. However, the Reporting NZFI has not proceeded with the account opening process in a material sense. The Reporting NZFI would not be liable for a penalty of \$300 under section 142H(3).

9.1.1.3 Civil penalties on financial institutions for lack of reasonable care

A Reporting NZFI that does not comply with its CRS obligations could (depending on the circumstances) be liable for a penalty for lack of reasonable care under section 142H(5) of \$20,000 for the first failure and \$40,000 for each further failure (capped at \$100,000 per reporting period).

The concept of “reasonable care” as applied under New Zealand law should be applied. What will amount to taking reasonable care will be dependent upon the facts and circumstances of each case. As a general guide, it will be determined in the context of the degree of caution and concern which a prudent Reporting NZFI would use in similar circumstances.

This is, essentially, the same point made above about what would constitute “reasonable efforts”.

Example 1: A Reporting NZFI sets up its CRS due diligence procedures, but does not build into these procedures the fact that it is required to carry out due diligence on its pre-existing entity accounts by 30 June 2019 (the deadline for carrying out the initial review and reporting of such accounts). As a result of this, the Reporting NZFI fails to carry out due diligence on its pre-existing accounts by 30 June 2019.

The Reporting NZFI would be liable for a penalty under section 142H(5). A prudent Reporting NZFI would have built into its due diligence procedures the requirement to finish its pre-existing entity account due diligence by 30 June 2019.

The Reporting NZFI would be liable for a penalty of at least \$20,000 for this failure. It is likely that this would be considered to be a systemic failure that simply incidentally affects multiple accounts. If this is the case, there would be a single failure and penalty (for that failure) of \$20,000. The maximum amount of penalties that could be imposed under section 142H(5) in a reporting period is \$100,000.

9.1.2 Criminal knowledge-based penalties

A Reporting NZFI that knowingly does not comply with its CRS obligations could (depending on the circumstances) be liable for a penalty under section 143A of the Tax Administration Act 1994 for the following types of offences:

- knowingly not keeping documents required to be kept by a tax law;
- knowingly not providing information to the Commissioner when required to do so by a tax law. This is subject to a defence that can apply if the person – the Reporting NZFI in this context – does not have the information in its knowledge, possession, or control; or
- knowingly providing altered, false, incomplete or misleading information to the Commissioner in respect of its CRS obligations.

The penalties that apply for such offences, upon conviction, are \$25,000 for a first offence, and up to \$50,000 for subsequent offences.

Example 1: A Reporting NZFI has in place enhanced due diligence procedures for pre-existing individual accounts, where the only indicia is a “hold mail” instruction or “in-care-of” address and there is no other address on file. The Reporting NZFI seeks to obtain a self-certification from the account holder to determine their status. The account holder does not provide a self-certification. The Reporting NZFI is aware of its obligations to keep a record of a failure to obtain a self-certification (see section 22(2)(1)(c) of the Tax Administration Act 1994). However, it decides not to keep a record of the failure.

The Reporting NZFI would have knowingly failed to keep records of the steps it has undertaken, and any evidence it has relied upon, for the purposes of undertaking its due diligence obligations under the CRS set out in part 11B of the Tax Administration Act 1994. Therefore, the Reporting NZFI would have knowingly not kept documents required to be kept by a tax law. Accordingly, a penalty could be imposed on the Reporting NZFI, upon conviction, under section 143A of the Tax Administration Act 1994.

9.2 Penalties regime – information providers

As noted above, Reporting NZFIs have obligations to undertake due diligence on their accounts to identify accounts held (and/or, in the case of passive NFEs, controlled) by relevant foreign tax residents, to collect prescribed information about such persons, and to report⁷⁷ prescribed identity

⁷⁷ As noted above, this would apply if either the relevant foreign tax resident is a Reportable Person from a Reportable Jurisdiction or the Reporting NZFI otherwise chooses to adopt the wider approach to reporting.

and financial account information about those persons (and accounts) to Inland Revenue⁷⁸. Reporting NZFIs are potentially subject to penalties if they do not comply with these obligations.

As part of this due diligence process, a Reporting NZFI may (depending on the type of account) be required to take the following steps:

- request self-certifications and other information from account holders (including a passive NFE account holder about its status or the status of its controlling persons);
- request and obtain information from a person acting on behalf of an account holder (e.g. intermediary or nominee that is not the account holder) about the account holder and (if the account holder is a passive NFE) the account holder's controlling persons; and
- request self-certifications and other information from a controlling person of a passive NFE.

The Reporting NZFI will request this information so it can determine whether the account is held (or controlled) by a relevant foreign tax resident and obtain information about such accounts that it may need to report.

Therefore, account holders, intermediaries/nominees, and controlling persons will sometimes be asked to obtain and provide self-certifications or other information (generally about whether they are foreign tax residents or whether they hold funds for foreign tax residents) to assist a Reporting NZFI to carry out its due diligence. A self-certification will generally involve such persons signing or otherwise affirming whether they (or persons that they hold funds for) are foreign tax residents.

These persons will be referred to as “information providers” for the purposes of the following guidance.

In order to provide an incentive for information providers to obtain and provide such information, and in acknowledgement of the fact that such persons often control the information that the Reporting NZFI is required to obtain (or at least can take reasonable steps to obtain this information), various requirements will be imposed on information providers. These requirements will apply for the purposes of both CRS and FATCA.

The requirements are set out in section 185P of the Tax Administration Act 1994 as follows:

- (1) This section applies to a person or entity associated with a financial account if the financial institution that maintains the financial account is required under the FATCA agreement or CRS applied standard (the account requirements) to perform due diligence for the financial account.
- (2) When a financial institution requests a person or entity (the institution contact) to provide information or a self-certification that the financial institution is required to obtain under the account requirements for the financial account, the institution contact must—

⁷⁸ Reporting NZFIs will also need to report undocumented accounts.

- (a) provide to the financial institution the required information or self-certification for the institution contact; and
 - (b) make reasonable efforts to obtain the required information or self-certification for each other person or entity associated with the financial account, and provide the information and self-certifications to the financial institution.
- (3) When a person or entity associated with the financial account (the secondary contact) is asked by an institution contact or other person or entity (the requesting person) to provide information or self-certifications related to the financial account and referred to in subsection (2)(b), the secondary contact must—
 - (a) provide the requesting person with the required information or self-certification for the secondary contact; and
 - (b) make reasonable efforts to obtain the required information or self-certification for each other person or entity associated with the financial account and the secondary contact, and provide the information and self-certifications to the requesting person.
- (4) If a person or entity provides information or a self-certification to another person or entity as required by this section, the person or entity must inform the other person or entity of any material change in circumstances affecting that information or self-certification within a reasonable time of becoming aware of the material change.

9.2.1 Civil penalties

If an information provider does not comply with these requirements they can be subject to a penalty under section 142I of the Tax Administration Act 1994 of \$1,000 (subject to various defences, outlined below) for the following offences, which will apply for both CRS and FATCA purposes:

- providing false information, other than a self-certification, relating to the information provider or to another person or entity;
- signing or otherwise affirming a false self-certification for the information provider;
- providing a false self-certification for another person or entity;
- failing to provide information, other than a self-certification, relating to the information provider within a reasonable time after receiving a request for the information;
- failing to sign, or otherwise affirm, and provide a self-certification related to the information provider within a reasonable time after receiving a request;
- failing to provide information, other than a self-certification, relating to another person or entity within a reasonable time after receiving a request;

- failing to provide a self-certification relating to another person or entity within a reasonable time after receiving a request obliging the self-certification to be provided; and
- after providing a person or entity with a self-certification or other information, failing to inform the person or entity of a material change in the circumstances relating to the self-certification or information within a reasonable time after becoming aware of the change.

Defences

The above penalties are subject to the following defences:

- a “no fault” defence where the information is within the control of the information provider, but where the information provider is not at fault; and
- a “reasonable efforts” defence where the information relates to another person or entity and is not within the control of the information provider (e.g. an intermediary acting on behalf of an account holder) and the information provider has made reasonable efforts to obtain and provide the information.

Example 1: A Reporting NZFI undertakes new entity account due diligence on a family trust account holder and obtains a self-certification from the trust that it is a passive NFE. The Reporting NZFI then asks the trust to obtain self-certifications from its controlling persons as to whether any such persons are relevant foreign tax residents. In turn, the trust asks for self-certifications from its controlling persons as to their tax residency. One mandatory beneficiary (a controlling person) does not provide a self-certification of their tax residency, even though they are able to provide this information.

The mandatory beneficiary will be subject to a penalty of \$1,000 under section 142I(f) for refusing to provide a self-certification. The beneficiary has no defence as they are at fault. The passive NFE would not be subject to such a penalty. This is because it has made reasonable efforts to obtain the requisite self-certification from the beneficiary.

Example 2: A Reporting NZFI maintains a pre-existing entity account held by a trust. The Reporting NZFI tries to ring the trustee’s New Zealand land line to obtain a self-certification as to whether the trust is a passive NFE. The trustee is on a six-month holiday in Europe, so does not respond to the call, and has left no forwarding contact details.

The trustee is not at fault and would not be liable for a penalty for failing to provide a self-certification.

9.2.2 Criminal knowledge-based penalties

Information providers can also be subject to criminal penalties under section 143A of the Tax Administration Act 1994 if they:

- knowingly fail to provide information to another person when required to do so under Part 11B. (This is subject to a defence that would apply in certain circumstances where the person does not have the information in their knowledge, possession or control); or
- knowingly provide altered, false, incomplete or misleading information to another person in respect of a matter or thing relating to a requirement in Part 11B.

The penalties that would apply for such offences, upon conviction, are \$25,000 for a first offence, and up to \$50,000 for subsequent offences if convicted of the offences listed above. These penalties apply for both CRS and FATCA purposes.

Example 1: A Reporting NZFI asks a passive NFE account holder to confirm whether any of its controlling persons are relevant foreign tax residents. The account holder, in turn, asks its controlling persons to provide such information to it. One of the controlling persons (for example, a settlor) has this information but deliberately does not respond to the account holder's request.

The controlling person would be guilty of a knowledge offence under section 143A upon conviction.

The penalties that would apply for such offences, upon conviction, are \$25,000 for a first offence, and up to \$50,000 for subsequent offences.

10 CRS requirement to have an avoidance provision

As noted above, section IX(A)(1) of the CRS requires that implementing jurisdictions (such as New Zealand) have rules to prevent financial institutions, persons or intermediaries from adopting practices intended to circumvent the CRS due diligence and reporting procedures. The CRS Commentary on the application of section IX states that the form of the CRS “anti-avoidance” rule is not important as long as the rule is effective to prevent circumvention of the CRS reporting requirements and the due diligence procedures.⁷⁹

The CRS Commentary provides that an implementing jurisdiction’s anti-avoidance rule needs to cover arrangements such as:⁸⁰

- *Example 1 (Shift maintenance of an account): A Reporting Financial Institution advises a customer to maintain an account with a related entity in a non-participating jurisdiction that enables the Reporting Financial Institution to avoid reporting while offering to provide*

⁷⁹ See page 208 of the CRS Commentary.

⁸⁰ See page 208 of the CRS Commentary.

services and retain customer relations as if the account was maintained by the Reporting Financial Institution itself. In such a case, the Reporting Financial Institution should be considered to maintain the account and have the resulting reporting and due diligence requirements.

- Example 2 (Year-end amounts): *Financial Institutions, individuals, entities or intermediaries manipulate year-end amounts, such as account balances, to avoid reporting or being reported on.*
- Example 3 (Park money with qualified credit card issuers): *Individuals or entities park balances from other reportable accounts with qualified credit card issuers for a short period at the end of the year to avoid reporting.*
- Example 4 (Electronic records and computer systems): *A Reporting Financial Institution deliberately does not create any electronic records (such that an electronic record search would not yield any results) or maintains computerised systems artificially dissociated (to avoid the account aggregation rules).*

The common theme in each of these examples is that an arrangement has been entered into to circumvent the CRS due diligence and reporting obligations. This is an important part of the background context to the following guidance.

10.1 New Zealand's anti-avoidance provision

In order to meet the OECD's expectations set out in section IX of the CRS, there will be a specific anti-avoidance rule in section 185R of the Tax Administration Act 1994. This provision will have application for both CRS and FATCA purposes.

Section 185R (1) provides that if a main purpose of a person in entering an arrangement is to avoid a requirement under this part (Part 11B)), the arrangement is treated as having no effect in relation to the person's requirements under this part (Part 11B).

Part 11B is the subpart of the Tax Administration Act 1994 that contains the following requirements:

- the FATCA and CRS due diligence and reporting requirements of NZFIs;⁸¹ and

⁸¹ These obligations are set out in sections 185E to 185O of the Tax Administration Act 1994.

- the information collection and provision requirements applicable to persons or entities connected with a financial account (information providers), to assist NZFIs in carrying out their FATCA and CRS due diligence and reporting obligations.

Section 185R(2) provides that when an arrangement has been voided (as having no effect) under section 185R(1) (the anti-avoidance rule discussed above) the person has the requirements under Part 11B that “the Commissioner considers appropriate in the absence of the arrangement”. This section allows the Commissioner to reconstruct the avoidance arrangement to ensure that the CRS requirements are best complied with.

This guidance now outlines the following matters that are relevant to section 185R(1):

- what constitutes an “arrangement” under section 185R(1); and
- what is meant under section 185R(1) by “a main purpose of a person” (in entering into such an arrangement) being to “avoid a requirement” that they have under Part 11B.

10.2 What constitutes an “arrangement” under section 185R(1)

The term “arrangement” is broadly defined in the domestic context⁸² to mean an agreement, contract, plan, or undertaking, whether enforceable or unenforceable, including all steps and transactions by which it is carried into effect. The section YA 1 “arrangement” definition also applies to section BG 1 of the Income Tax Act 2007, and the same definition is used in section 76 of the Goods and Services Tax Act 1985 – the general anti-avoidance provisions applying to income tax and GST respectively. This broad definition, as interpreted by New Zealand courts and in the avoidance context, should be applied when applying section 185R(1) of the Tax Administration Act 1994 as this provision does not provide a specific alternate definition for the term.

10.3 What is meant by “a main purpose of a person” in entering into such an arrangement being to “avoid a requirement under” Part 11B

Section 185R(1) of the Tax Administration Act 1994 would apply if a person (or entity) enters into **such an arrangement** with a main purpose of avoiding a requirement under Part 11B. Such an arrangement would be treated as having no effect in relation to the person’s requirements under Part 11B.

As noted above, Part 11B is the subpart of the Tax Administration Act 1994 that contains the following requirements:

⁸² Refer to section YA 1 Income Tax Act 2007 for the definition of the term “arrangement”.

- the FATCA and CRS due diligence and reporting requirements of NZFIs⁸³ that have FATCA and CRS due diligence and reporting obligations; and
- the information collection and provision requirements applicable to persons or entities connected with a financial account, to assist NZFIs in carrying out their FATCA and CRS due diligence and reporting obligations.

Section 185R(1) would apply **if** a person entered into an arrangement with a main purpose of avoiding **such a requirement**.

There are some important points to highlight here:

- the avoidance purpose need only be “a” “main purpose” of a person in entering into the arrangement. It does not need to be the person’s only purpose; and
- it is the avoidance purpose of “a person” in entering into the arrangement that is relevant, not the purpose of the “arrangement”.

Determining a “main” purpose of the arrangement

If such a person enters into an arrangement with a main purpose of avoiding their requirements under part 11B of the Tax Administration Act 1994 the arrangement would have no effect in relation to those requirements. For example, if a person or entity⁸⁴ associated with a financial account (such as the account holder) entered into an arrangement with a main purpose of avoiding a requirement to provide required information about the account to the Reporting NZFI, that arrangement would have no effect (would be void) in relation to that person’s requirements under Part 11B.

The reference to a “main” purpose (in this context) would cover a “substantial” purpose. This would be a higher threshold than when such avoidance is merely incidental (i.e. a mere result of due diligence and reporting not applying would not, in and of itself, be enough for section 185R(1) to apply).

10.3.1 The avoidance purpose need only be “a” main purpose

Section 185R(1) also refers to “a” main purpose of avoidance, so that it is not a requirement to the section applying that the avoidance purpose be the “sole” purpose or “the” main purpose. An arrangement might be entered into with several main purposes. Provided one of those main purposes

⁸³ These obligations are set out in sections 185E to 185O of the Tax Administration Act 1994.

⁸⁴ The proposed section 185Q of the Tax Administration Act 1994 would apply to the extent that the entity is not a person.

is the avoidance of a requirement, then section 185R(1) can apply to void the arrangement in relation to the person's requirements.

10.3.2 The avoidance purpose of "a person"

Section 185R(1) refers to "a main purpose of a person" in entering into an arrangement (being to avoid a requirement they have under Part 11B). This is a subjective test to be viewed from the perspective of the person entering into the arrangement. However, the Commissioner is permitted to test the veracity of an asserted subjective purpose by considering objective evidence.

Example 1: A Reporting NZFI bank maintains an account held by Tom. Tom wants to move to Australia. Tom opens another account in Australia. Tom calls the bank to close the account and instructs the bank to transfer the funds to Australia.

This arrangement, would on the face of the facts provided, not be avoidance under section 185R(1). This is because the arrangement is clearly entered into because of Tom moving to Australia. It is not an arrangement entered into with a main purpose of avoiding CRS due diligence and reporting. The fact that the arrangement would mean that the Reporting NZFI would not need to carry out any ongoing due diligence in the future on the account would not by itself constitute avoidance under section 185R(1). Instead, any such avoidance appears to merely be an incidental effect of the arrangement. This can be easily contrasted with the four examples of avoidance set out in the CRS Commentary (referred to above), which clearly involve arrangements entered into with a main purpose of avoiding CRS and where such avoidance is a driver of the arrangement.

Example 2: A Reporting NZFI maintains an account held by Steve. Steve is a foreign tax resident from a Reportable Jurisdiction. Steve does not want to be reported on for CRS purposes because he has not paid tax in his jurisdiction of tax residence on his foreign investments. The Reporting NZFI offers a service of relocating Steve's accounts to a related entity resident in a jurisdiction that is not a Participating Jurisdiction, so that Steve will be able to avoid being reported on for CRS purposes. Steve accepts the Reporting NZFI's offer. He is not moving to the jurisdiction that is not a Participating Jurisdiction. However, he wants to move his accounts to that jurisdiction, so that he will not be reported for CRS purposes.

This arrangement would be avoidance under section 185R(1). Clearly, a main purpose of Steve and the Reporting NZFI entering into the arrangement is to avoid CRS reporting. This conclusion is supported by the background context to section 185R(1). The arrangement is very similar to example 1 in the CRS Commentary (referred to above). This is precisely the type of arrangement that is intended to be captured by this provision.

Example 3: The same facts as example 2 above. However, the related entity in the jurisdiction that is not a Participating Jurisdiction is able to provide financial accounts which provide a rate of return slightly higher than the New Zealand accounts would. Steve asserts that a main purpose for relocating the accounts into a jurisdiction that is not a Participating Jurisdiction was to derive a better rate of return.

Section 185R(1) would still be applicable because Steve and the Reporting NZFI still entered into an arrangement with “a” main purpose of avoiding a CRS requirement. This is the case even though there is arguably a “commercial” purpose for the decision as well.

10.4 Reconstruction

As noted above, section 185R(2) of the Tax Administration Act 1994 provides that when an arrangement has been voided (as having no effect) under s185R(1) the person has the requirements under Part 11B that “the Commissioner considers appropriate in the absence of the arrangement”.

This section allows the Commissioner to reconstruct the avoidance arrangement to ensure that the CRS requirements are best complied with.

Example: A Reporting NZFI advises a customer to shift an account to a related entity in a jurisdiction that is not a Participating Jurisdiction with a main purpose of avoiding the CRS due diligence and reporting obligations.

The Commissioner could consider the Reporting NZFI as nonetheless “maintaining the account” and therefore continuing to have the resulting CRS reporting and due diligence obligations.

11 Application of CRS to particular types of entities and structures

11.1 Trusts

Overview

The following guidance provides a high-level summary of how the CRS applies to trusts.

A trust is a fiduciary relationship where property is settled by a settlor on a trustee who acts and holds the property for the benefit of specified beneficiaries (usually in terms of a trust deed). Such trusts are often referred to as “express trusts”. A discretionary trust is a common example of an express trust. A protector may also be appointed in connection with a trust. A protector’s role is to ensure that the trustee acts in accordance with their powers as authorised in the trust deed.

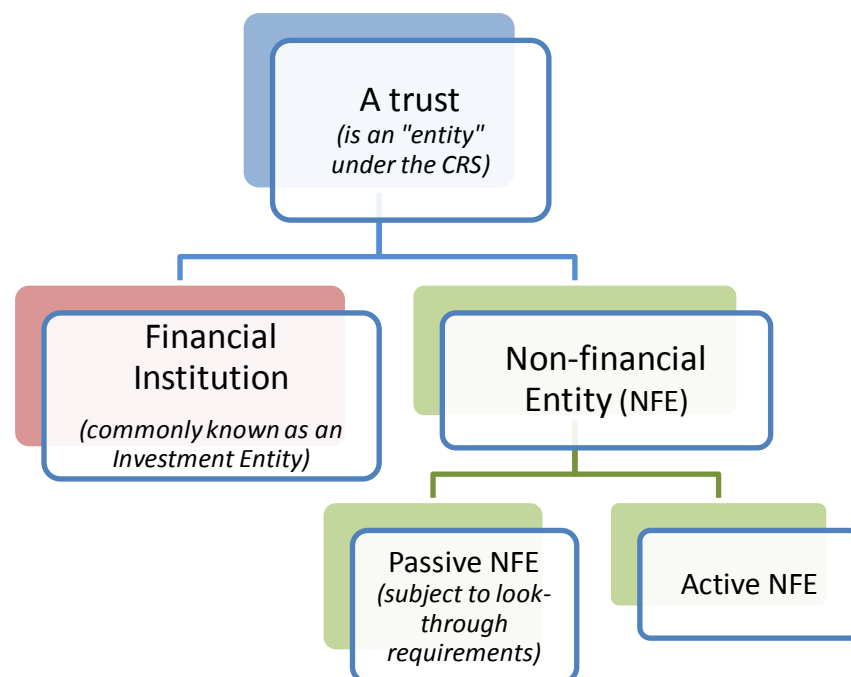
A trust is defined in section VIII(E)(3) of the CRS as being an “entity”. All trusts will be entities irrespective of whether they are revocable or irrevocable. The fact that a trust is an entity⁸⁵ for CRS purposes means that a trust will either be a:

- financial institution (commonly as an investment entity); or
- NFE (passive NFE or active NFE).

⁸⁵ In contrast, an individual cannot be a financial institution.

If a trust is a Reporting NZFI (Reporting NZFI) it will have CRS due diligence and reporting obligations in New Zealand.

If a trust is a NFE that holds a financial account with a Reporting NZFI it will be subject to due diligence (and possibly reporting) by that Reporting NZFI in New Zealand. The NFE trust will (as part of this process) have obligations to provide self-certifications and other information (on request) to the Reporting NZFI to assist the NZFI with its own due diligence. If the NFE trust is a passive NFE, this will include providing details of its controlling persons to the Reporting NZFI. The NFE trust will potentially be subject to penalties if it fails to provide this information.



This guidance is in three parts.

First, it outlines the circumstances when a trust will be a Reporting NZFI with due diligence and reporting obligations in New Zealand. This part will address the following points:

- when will a trust be a “financial institution”;
- when will a trust be a “New Zealand” financial institution (NZFI);
- when will a trust be a “Reporting” NZFI; and
- what will be a Reporting NZFI trust’s due diligence and reporting obligations?

The second part of this guidance deals with the circumstances when a NFE trust holds an account with a Reporting NZFI and is subject to due diligence (and potentially reporting) by that Reporting NZFI. This part of the guidance also outlines the obligations that the trust (and sometimes controlling persons of the trust) will have to provide self-certifications and other information to assist the Reporting NZFI in carrying out this due diligence.

The third part of the guidance provides a high-level summary of how the CRS will apply to the following types of trusts:

- family trusts;
- charitable trusts;
- foreign trusts; and
- solicitors' trust accounts.

11.1.1 When will a trust be a Reporting New Zealand Financial Institution?

A trust will be a Reporting NZFI if:

- it is a “financial institution”;
- it is a “New Zealand” financial institution (NZFI); and
- it is a “Reporting” NZFI.

This guidance now explains all of these “building blocks” to set out the circumstances when a trust will be Reporting NZFI.

11.1.2 When will a trust be a financial institution?

A “financial institution” is defined in the CRS as covering the following types of entities:

- a depository institution;
- a custodial institution;
- an investment entity; or
- a specified insurance company.

These types of financial institution are outlined in detail in paragraph 3.1 of this guidance. They generally require that the entity carries on a particular type of business for customers (such as a bank

– depository business for customers). However, as explained further below, an entity (such as a trust) can be a “managed investment entity” even if it does not carry on a business for customers.

The following chart provides a high-level summary of the circumstances when a trust will be a financial institution:

Step		Yes	No
1	Does the trust carry on a “business” for customers?	Go to step 2	Go to step 3
2	Is the trust any of the following financial institutions? <ul style="list-style-type: none"> • an “in business” investment entity that is not excluded from the definition of the “investment entity”; or • another type of financial institution? 	The trust is an “in business” financial institution	Go to Step 3
3	Does the trust meet all of the following: <ul style="list-style-type: none"> • is it managed by a financial institution;⁸⁶ • is its gross income primarily attributable to investing, reinvesting or trading in financial assets; and • is it not excluded from the definition of “investment entity”? 	The trust is a “managed” investment entity financial institution	The trust is a NFE

The type of financial institution that is most likely to apply to trusts is the investment entity category. Therefore, the following guidance focuses on this category.

⁸⁶ However, the “managing” financial institution cannot itself be a managed investment entity.

A trust will be an investment entity in the following circumstances:⁸⁷

- if it is an “in business” investment entity; or
- if it is a “managed” investment entity.

When will a trust be an “in business” investment entity?

A trust will be an "in business" investment entity if it primarily conducts as a business the following specified investment activities for customers:

- trading in money market instruments, foreign exchange, exchange, interest rate and index instruments, transferable securities, or commodities futures trading;
- individual and collective portfolio management; or
- otherwise investing, administering or managing financial assets or money on behalf of persons.

A trust will be treated as “primarily conducting as a business” these specified investment activities for customers if its gross income from these activities equals or exceeds 50% of the trust’s gross income over the following specified period:

The shorter of:

- the three-year period ending on 31 March of the period preceding the period in which the determination is made; or
- the period during which the entity has been in existence.

The following types of trusts would generally be “in business” investment entities:

- a unit trust;
- a collective investment vehicle constituted as a trust; and
- a managed investment scheme (under the Financial Markets Conduct Act 2013) constituted as a trust.

⁸⁷ However, an active NFE coming within section VIII(D)(9)(d)-(g) of the CRS is excluded from being an investment entity. This exclusion is unlikely to apply to trusts, so will not be considered here. However, readers should refer to the definition of “active NFE” in Appendix 4 for further detail about this exclusion.

Other common forms of trusts, such as family trusts, would generally not carry on a business for customers. However, as explained below, they could still (depending on the circumstances) be managed investment entities.

Example: *Trevor Funds is a managed investment scheme that carries on as its business collective portfolio activities for customers. It derived all of its income from such activities over the specified period. Is it an “in business” investment entity?*

Yes. Trevor Funds carried out specified investment activities for customers (collective portfolio management) and derived its income primarily from such activities over the specified period. Therefore, it is an “in business” investment entity.

When will a trust be a “managed” investment entity?

The second type of investment entity is a “managed” investment entity.

A trust will be a managed investment entity if:

- it derives its income primarily (50% or more) from investing, reinvesting or trading in financial assets over the specified period; and
- it is managed by a financial institution (other than a managed investment entity).

This then raises the following questions:

- what is a “financial asset”; and
- what does “managed” mean?

What is the meaning of “financial asset”?

A “financial asset” generally covers all assets (including, for example, shares, units, bonds and money) **other than** physical commodities or direct interests in real property.

What is the meaning of being “managed” by a financial institution?

An entity will be regarded as “managed” by another financial institution (that performs specified investment activities for it) where that financial institution has discretionary authority to manage the entity’s assets (either in whole or in part.)

A financial institution trustee will generally manage a trust (in this regard).

A trustee may also outsource management of the trust’s assets (either in whole or part). For example, where the trustee of a family trust sets the parameters within which a fund manager can invest some or all of the trust’s assets, but gives the fund manager full discretion to invest within those parameters, the trust’s assets will be managed by the fund manager.

However, where the trustee retains full control over the investment decisions and the fund manager simply acts on instruction from the trustee without discretion, the assets will not be managed by the fund manager.

Furthermore, if a financial institution merely provides advice to an entity, this will not be sufficient by itself to mean that the financial institution manages the entity. It is the discretionary authority to manage the entity's assets (either in whole or in part) that is crucial.

An entity may be managed by a mix of other entities and individuals. If any of the persons involved in the management of the entity is a financial institution, then the entity will be regarded as managed by that financial institution. The residence of the financial institution manager is not relevant in this regard. This part of the definition of "managed investment entity" simply requires that the manager is a financial institution (i.e. It does not specify where that institution needs to be resident).

Example 1: *A trust set up in New Zealand has the following investments:*

- *shares under discretionary investment with a Reporting NZFI fund manager (a provider of discretionary investment management services – DIMS provider); and*
- *a rental property.*

The trust derived 80% of its income from the shares (financial assets) over the specified period. The trust derived the other 20% of its income from the rental property.

Is the trust a "managed" investment entity?

Yes: The trust derived its income primarily (50% or more) from financial assets (shares) over the specified period. The trust's assets are also managed (in part) by a financial institution (the Reporting NZFI fund manager – DIMS provider). Therefore, the trust is a managed investment entity financial institution.

Example 2: *The facts are the same as example 1. However, the trust decides to acquire three more rental properties. The trust now derives 60% of its income from rental properties (and 40% from the shares).*

Is the trust a "managed" investment entity?

No: The trust derived its income primarily from direct interests in real property (not financial assets). Therefore, the trust is not a managed investment entity.

Example 3: *A trust has assets that comprise a share portfolio and the family home. The trust has two individual trustees, one of which has been empowered to manage the trust's assets. The trust does not outsource any management of its assets to any financial institution. The trust derives its income primarily from the shares.*

Is the trust a “managed” investment entity?

No: The trust is managed by an individual trustee – an individual is not an “entity” under the CRS. It follows that the trustee cannot be a financial institution under the CRS. The trustee also does not outsource any management to any financial institution. Therefore, the trust is not a managed investment entity.

Example 4: *A trust holds shares in various property funds. The property funds, in turn, hold interests in real property located in Australia.*

The trust organises for a Reporting NZFI provider of discretionary investment management services (DIMS provider) to have authority to manage these shares. The trustee provides that Reporting NZFI DIMS provider with discretionary authority to buy and sell shares in such property funds subject to an agreed mandate.

The trust earns all of its income from investing in such shares over the specified period (i.e. receiving dividends from those investments).

Is the trust a “managed” investment entity?

Yes. The trust’s income is primarily attributable to the shares (financial assets). The trust is also managed by the Reporting NZFI DIMS provider. Therefore, the trust is a managed investment entity financial institution.

11.1.3 When will a trust be a New Zealand financial institution?

This guidance has outlined the circumstances when a trust will be a financial institution. It now sets out the circumstances when a financial institution trust will be a “New Zealand” financial institution trust.

A financial institution trust will generally be resident in New Zealand for CRS purposes, and, therefore, a NZFI, if it has one or more trustees that are tax-resident in New Zealand. However, the exception to this is if the trust is tax resident in another Participating Jurisdiction and reports all the information required to be reported under the CRS with respect to reportable accounts maintained by the trust to that jurisdiction because it is a tax resident in that jurisdiction.

Example 1: *A financial institution trust has a single trustee who is tax-resident in New Zealand.*

Is the financial institution trust a “New Zealand” financial institution?

Yes: The general rule is that a financial institution trust will be resident in New Zealand for CRS purposes if it has a trustee that is tax-resident in New Zealand. The general rule applies to these facts.

Example 2: *The facts are the same as example 1. However, the financial institution trust contracts an overseas fund manager to manage some of its assets.*

Is the financial institution trust a “New Zealand” financial institution?

Yes: The fact that the trust has an overseas fund manager is **irrelevant** to whether or not it is a “New Zealand” financial institution. Instead, as noted above, it is the trustee’s jurisdiction of tax residence, which is the crucial point.

Example 3: *The facts are the same as example 1. However, the financial institution trust adds a further trustee in jurisdiction B (a Participating Jurisdiction). The trustee reports all of the CRS information for the trust in jurisdiction B because the trust is tax-resident in that jurisdiction.*

Is the financial institution trust a “New Zealand” financial institution?

No: The exception applies here. The trust’s connection to New Zealand is negated by the reporting overseas.

This then raises the question of when a NZFI trust will be a “**Reporting NZFI**”.

11.1.4 When will a trust be a Reporting NZFI?

A NZFI trust will be a Reporting NZFI (by default), unless it is a Non-Reporting NZFI. The types of Non-Reporting NZFI that could (depending on the circumstances) apply to trusts are:

- a trustee documented trust;
- a broad participation retirement fund (if constituted as a trust);
- a narrow participation retirement fund (if constituted as a trust);
- a pension fund of a Government entity, international organisation, or Central bank (if constituted as a trust); and
- an exempt collective investment vehicle (if constituted as a trust).

These types of Non-Reporting NZFI are outlined in full in Appendix 6 of this guidance. However, it is useful at this point to provide some detail about the application of the trustee documented trust type, which is likely to be the most relevant type of Non-Reporting NZFI for trusts.

The trustee documented trust category provides that a NZFI trust will be a Non-Reporting NZFI to the extent that the trustee of the trust is a Reporting Financial Institution and reports all of the information required to be reported with respect to all reportable accounts of the trust.

However, it is important to note that if the trustee of a trustee-documented trust does not comply with these obligations the trust will, therefore, not be able to benefit from this exclusion and will be a Reporting NZFI. In other words, where a trustee fails to fulfil any of these obligations, the trust will be responsible for completing due diligence or reporting as a Reporting NZFI. Therefore, essentially, the trust will be reliant on the trustee complying with its obligations (on behalf of the

trust) in order for the trust itself to have complied with the CRS. These points are further explained on at page 174 of the CRS Commentary.

11.1.5 What are the due diligence and reporting obligations of Reporting NZFI trusts?

This guidance has outlined the circumstances when a trust will be a Reporting NZFI. It now sets out the due diligence and reporting obligations that such Reporting NZFI trusts will have.

A Reporting NZFI trust will need to:

- carry out due diligence on its financial accounts to identify accounts held (and/or, in the case of passive NFEs, controlled) by relevant foreign tax residents; and
- report prescribed identity and financial account information to Inland Revenue about reportable accounts and undocumented accounts.

The Reporting NZFI trust's financial accounts will include the following (assuming that the trust is an investment entity – the category of financial institution that is most likely to apply to trusts):

- debt interests; and
- equity interests.

A trust's debt interests would cover anyone that has provided debt funding to the trust (including through a current account held by a beneficiary or through a third party advance).

A trust's equity interest account holders would cover:

- the trust's settlors (irrespective of whether the trust is revocable);
- the trust's beneficiaries (subject to the following); and
- any other natural person that exercises ultimate effective control over the trust (which would, at a minimum, cover the trustee).

If these persons are "entities" the equity interest account holders would be the natural persons that are "controlling persons" of the entity.

A discretionary beneficiary will only have an equity interest if they receive a distribution in the period in question.⁸⁸ A person coming within a class of beneficiaries would only have an equity interest if they receive distribution in the period in question or intend to exercise vested rights.

Example 1: *A Reporting NZFI investment entity trust has a settlor (Simon), trustee (Ruth), and discretionary beneficiary (Tom). Tom does not receive a distribution in the period.*

Who are the trust's equity interest account holders?

Simon – the settlor and Ruth – the trustee (a natural person that has ultimate effective control of the trust).

Tom is a discretionary beneficiary who did not receive a distribution in the period. Therefore, he is not an equity interest account holder.

Example 2: *The facts are the same as example 1. However, the trustee is a corporate trustee that is controlled by Ruth.*

Who are the trust's equity interest account holders?

The answer is the same as for example 1. Ruth still holds an equity interest account. This is because, as noted above, it is necessary to trace through entities connected with a financial institution trust to identify the relevant equity interest account holders of a trust.

As noted above, a Reporting NZFI trust will need to carry out due diligence on its financial accounts (i.e. these debt and equity interests) to determine whether those accounts are held (and/or, in the case of passive NFE account holders, controlled) by relevant foreign tax residents.

The due diligence processes that a Reporting NZFI trust will need to adopt (in this regard) are set out in detail in paragraph 5 of this guidance and would depend on whether the account is a pre-existing account (open on 30 June 2017) or a new account (open on or after 1 July 2017).

However, at a high level:

- Pre-existing accounts: The Reporting NZFI trust will generally need to adopt a residential address test or a search for foreign indicia for accounts held as of 30 June 2017 (for example, if a settlor had an equity interest as of 30 June 2017).

And:

⁸⁸ The OECD has confirmed in an answer to a “Frequently Asked Question” that if a discretionary beneficiary receives a distribution in a given period, but not in a following period, the absence of a distribution in such following year should generally not constitute an account closure. However, the exception to this is if the beneficiary is permanently excluded from receiving future distributions from the trust (i.e. that would constitute closure of the account).

- New accounts: The Reporting NZFI trust will generally need to obtain a self-certification for accounts opened on or after 1 July 2017 (for example, if a new mandatory beneficiary was added to the trust on 10 July 2017).

The reader should carefully review the detailed outline of these due diligence processes in paragraph 5 of this guidance.

If a Reporting NZFI carries out such due diligence on these accounts and identifies that they are held (and/or controlled) by relevant foreign tax residents it will need to collect the person’s name, address, jurisdiction of residence, TIN (or functional equivalent)⁸⁹ and date of birth (subject to various exceptions and qualifications outlined in paragraph 5 of this guidance).

The Reporting NZFI will then need to report prescribed identity and financial information about the account to Inland Revenue **if either**:⁹⁰

- the Reporting NZFI has identified that the person is a Reportable Person (i.e. from a Reportable Jurisdiction that New Zealand will be providing CRS information to); or
- the Reporting NZFI has chosen to adopt the wider approach to Reporting.

This prescribed identity information that the Reporting NZFI would need to report to Inland Revenue about such accounts would include the relevant person’s name, address, jurisdiction of tax residence, and TIN⁹¹ (or functional equivalent) and date of birth (subject to various exceptions and qualifications outlined in paragraph 5 of this guidance).

The prescribed financial information that the Reporting NZFI would need to report would include the account balance or value and amounts paid or credited to (or with respect to) the account.

The reader should refer to paragraph 6 of this guidance for further details about the information they need to report for such reportable accounts.

11.1.6 Accounts held by non-financial entity trusts

This guidance will now shift focus to outline how the CRS will affect NFE trusts that hold accounts with Reporting NZFIs. There are three key elements to this:

- The CRS is clear that a trust will be the relevant account holder (rather than the trustees of the trust).

⁸⁹ If a Reporting NZFI has a passive NFE with a controlling person that is a relevant foreign tax resident it would also need to collect the passive NFE’s name, address and TIN (or functional equivalent).

⁹⁰ The Reporting NZFI trust will also need to report undocumented accounts. The meaning of “undocumented account” is outlined in paragraphs 1.6, 5.3.2, and 5.3.3.

⁹¹ As noted above, a person may be identified as being resident in multiple jurisdictions. If this is the case, the person’s TIN (or TIN equivalent) should be collected and reported for all of such jurisdictions.

- The Reporting NZFI will have obligations to carry out due diligence on the NFE trust account to determine if it is held (and/or, if the trust is a passive NFE, controlled) by relevant foreign tax residents.
- The NFE trust (and persons connected with the trust) will sometimes have obligations to provide self-certifications and other information to assist the Reporting NZFI in carrying out its due diligence. The trust (and such persons) may be subject to penalties if they do not provide this information.

This guidance now provides a high-level outline of the due diligence obligations that a Reporting NZFI will have to review for a NFE trust account. It also outlines what obligations the NFE trust (and sometimes persons connected with the trust) will have to provide in self-certifications and other information to the Reporting NZFI to assist it with its due diligence.

The steps that the Reporting NZFI would need to carry out when conducting such due diligence are as follows:

- determining whether the NFE trust account holder is a relevant foreign tax resident;
- determining whether the NFE trust is a passive NFE; and
- if the NFE trust is a passive NFE, identifying the trust's controlling persons and determining whether any of those persons are relevant foreign tax residents.

(It is important to note that a Reporting NZFI will need to carry out the last two steps irrespective of whether the NFE trust account holder is a relevant foreign tax resident.)

The Reporting NZFI will first need to determine whether the NFE trust is a relevant foreign tax resident. The process that the Reporting NZFI will need to follow in this regard will depend on whether the NFE account is a pre-existing account open on 30 June 2017 or whether it is a new account opened on or after 1 July 2017. These processes are outlined in detail in paragraph 5 of this guidance. However, at a high level this would involve:

- Pre-existing accounts: The Reporting NZFI generally relying on information in its possession or that is publicly available to determine whether the NFE trust is a relevant foreign tax resident. Alternatively, the Reporting NZFI could seek a self-certification.
- New accounts: The Reporting NZFI generally obtaining a self-certification of whether the NFE trust is a relevant foreign tax resident.

Therefore, the Reporting NZFI may request self-certifications or other information to determine whether the NFE trust is a relevant foreign tax resident.

If the Reporting NZFI determines that the NFE trust is a relevant foreign tax resident they will then ask for the trust's name, address, jurisdiction(s) of tax residence and TIN(s)(or functional equivalent). As noted above in paragraph 5.5.1, there is a special rule that applies to when such a TIN would need to be obtained for pre-existing accounts (by the end of the second reporting period following from when the account is identified as being held by a Reportable Person). As noted in paragraphs 5.5.3, 6.1 and 8.1.6, there are also some circumstances when the Reporting NZFI does not need to obtain the TIN (or functional equivalent) – i.e. when the account holder does not have a TIN or their jurisdiction of tax residence does not require the collection of TINs.

The NFE trust generally needs to provide this information within a reasonable period of time and is potentially subject to a penalty if they fail to do so (see paragraph 9). However, as noted above, there are some circumstances when an account holder is not required to provide a TIN (i.e. when they do not have a TIN or functional equivalent or where their jurisdiction of tax residence does not require the collection of TINs).

The Reporting NZFI will **then** need to determine whether the NFE trust is a passive NFE.

The following matters are relevant when determining whether a NFE is a “passive NFE”:

- In broad terms, a passive NFE will generally cover an entity that:
 - **is not** a financial institution; and
 - **either** derives predominantly (50% or more) passive income **and / or** has assets that predominantly produce or are held for the production of passive income.
- However, there are some exceptions to this. For example, if a registered charity is a NFE it would generally be an active NFE **even if** it derives predominantly passive income. The definitions of NFE, active NFE, and passive NFE are outlined in full in Appendix 4.
- A managed investment entity that is tax resident in a jurisdiction that is not a Participating Jurisdiction is also deemed to be a passive NFE.

“Passive income” will, in turn, be defined for CRS purposes in section 3(1) of the Tax Administration Act 1994 as:

passive income, in the application of the FATCA agreement or the CRS applied standard to a person or entity for a period, **means an amount** *that is not income from a transaction entered into in the ordinary course of the business of a dealer in financial assets* and **that is—**

- (a) a dividend:
- (b) interest:

- (c) income equivalent to interest:
- (d) **rent or a royalty**, other than rent or a royalty derived in the active conduct of a business conducted, partly or wholly, by employees of the person or entity:
- (e) an annuity:
- (f) **for financial assets** that give rise to amounts included **under paragraphs (a) to (e)**, the amount by which **gains from the sales or exchanges of the financial assets** in the period exceed losses from the sales or exchanges:
- (g) the amount by which **gains from the transactions in financial assets** in the period exceed losses from the transactions:
- (h) the amount by which **gains from the foreign currency transactions** in the period exceed losses from the transactions:
- (i) the amount by which **gains from the swaps** in the period exceed losses from the swaps:
- (j) an amount received under a cash value insurance contract . (Emphasis added)

For some NFE trust account holders the active/passive assessment may be straightforward and can be made on the basis of available information (in the Reporting NZFI's possession or that is publicly available).

However, the Reporting NZFI may sometimes need to obtain a self-certification from the account holder (i.e. as to whether it is a passive NFE as opposed to an active NFE or financial institution). The Reporting NZFI, when requesting such a self-certification, is expected to provide the account holder with the information that is relevant to them determining their status (for example, the definition of "active NFE").

Therefore, the Reporting NZFI may request self-certifications or other information to determine whether the trust is a passive NFE. The trust needs to provide this information within a reasonable period of time and is potentially subject to a penalty if it fails to do so (see paragraph 9).

If the Reporting NZFI determines that the trust is a passive NFE, it will **then** need to identify the trust's controlling persons and determine whether any of those persons are relevant foreign tax residents.

This raises the following questions:

- what does the Reporting NZFI need to do to identify the trust's controlling persons; and
- what does the Reporting NZFI need to do to determine whether any of the trust's controlling persons are relevant foreign tax residents?

What does a Reporting NZFI need to do to identify a passive NFE trust's controlling persons?

Section VIII(D)(6) of the CRS defines “controlling persons” as meaning the natural persons who exercise control over the entity, with some elaboration (outlined below) on how this would apply to trusts.

In the case of a Passive NFE trust, the term “controlling persons” mean the settlor(s), the trustee(s), the protector(s) (if any), the beneficiary(ies) or classes of beneficiaries, and any other natural person(s) exercising ultimate effective control over the trust. In the case of legal arrangements other than a trust, the term means persons in equivalent or similar positions.

The term “controlling persons” must be interpreted in a manner consistent with the Financial Action Task Force Recommendations. For the purposes of identifying the controlling persons of a passive NFE, a Reporting NZFI may (subject to the following) rely on information collected and maintained according to AML/KYC Procedures. Page 199 of the CRS Commentary sets out how this would apply in the context of pre-existing and new entity accounts.

The following points are relevant when determining whether persons connected with a passive NFE trust account holder are “controlling persons” of the trust:

- The settlor(s), the trustee(s), the protector(s) (if any), the beneficiary(ies) or classes of beneficiaries of a trust must (subject to the following) always be treated as controlling persons of the trust, irrespective of whether any of them exercises control over the trust (see page 199 of the CRS Commentary).
- A settlor is a controlling person of a trust irrespective of whether the trust is a revocable trust or an irrevocable trust.
- If a person connected to a trust (such as a trustee) is an entity the Reporting NZFI will need to identify the natural persons that control that entity.
- For beneficiaries that are designated by characteristics or by class, Reporting NZFIs should obtain sufficient information concerning the beneficiary(ies) to satisfy it that it will be able to establish the identity of the beneficiary(ies) at the time of the pay-out or when the beneficiary(ies) intends to exercise vested rights. Therefore, that occasion will constitute a change in circumstances and will trigger the relevant procedures (see page 199 of the CRS Commentary). This could be relevant if, for example, a trust has a “children of the settlor” class of beneficiaries. A child within that class would not be a relevant controlling person that needs to be identified until they receive a distribution from the trust or intend to exercise vested rights.

- A specified discretionary beneficiary of a passive NFE trust will generally be a controlling person of the trust. However, a Reporting NZFI has the option of only treating such a beneficiary as being a controlling person of the trust if that person receives a distribution in a reporting period (see page 199 of the CRS Commentary). The meaning of “receives a distribution” in this context means when an amount is paid or payable to the beneficiary. A Reporting NZFI that chooses to adopt this option will need to have reasonable safeguards and procedures in place to determine when such a distribution has been made.⁹² This could include the Reporting NZFI having an arrangement with the trustee (possibly in terms and conditions) that the trustee will inform the Reporting NZFI when it has made such a distribution. There is no compulsion for a Reporting NZFI to adopt this option. A Reporting NZFI could simply choose to treat all beneficiaries as being controlling persons (in this context) if it considers that this would be preferable from an operational point of view.

What does the Reporting NZFI need to do to identify whether any of the passive NFE trust’s controlling persons are relevant foreign tax residents?

Once the Reporting NZFI has identified a passive NFE trust’s controlling persons, it will then need to determine whether any of those persons are relevant foreign tax residents. The process that a Reporting NZFI will need to follow will depend on whether the trust account is a pre-existing account (open on 30 June 2017) or a new account (opened on or after 1 July 2017). The detail of these processes is outlined in paragraphs 5.5 and 5.6 of this guidance. However, at a high level this will generally involve the following:

- Pre-existing accounts: The Reporting NZFI relying on AML/KYC information that it has obtained to determine whether any of the controlling persons are relevant foreign tax residents.⁹³
- New accounts: The Reporting NZFI obtaining a self-certification (from either the trust or the controlling person) about whether any of the controlling persons are relevant foreign tax residents.

If a Reporting NZFI identifies that a controlling person is a relevant foreign tax resident it will need to collect:

⁹² See page 17 of the CRS Implementation Handbook.

⁹³ However, the Reporting NZFI will need to obtain a self-certification of the residency of the controlling persons if the account has a balance or value of more than USD 1,000,000.

- the passive NFE's name, address, jurisdiction(s) of tax residence and TIN(s)(or functional equivalent) (subject to the exceptions/qualifications outlined in paragraphs 5.5.3 and 5.6.3); and
- the controlling person's name, address, jurisdiction(s) of tax residence, TIN(s)(or functional equivalent) and date of birth (subject to the exceptions/qualifications outlined in paragraphs 5.5.3 and 5.6.3).

If a trust (or any of its controlling persons) is asked to provide such a self-certification or other information it will be required to provide this information⁹⁴ within a reasonable period of time after the request is made. If the trust (or the controlling persons) does not respond to such requests they may be subject to a penalty (see paragraph 9).

What would the Reporting NZFI need to report about a trust account that is identified as being held or controlled by a relevant foreign tax resident?

This then raises the question of what a Reporting NZFI would need to **report** about a trust account that it has identified as being held and/or controlled by a relevant foreign tax resident.

The Reporting NZFI will need to report prescribed identity and financial information about the account to Inland Revenue if either:⁹⁵

- the Reporting NZFI has identified that the person is a Reportable Person (i.e. from a Reportable Jurisdiction that New Zealand will be providing CRS information to); or
- the Reporting NZFI has chosen to adopt the wider approach to reporting.

This prescribed identity information that the Reporting NZFI would need to report about such accounts would include:

- the trust's name, address, jurisdiction(s) of tax residence and TIN(s) (or functional equivalent) (subject to the exceptions and qualifications outlined above); and
- if a controlling person is identified as being reportable, the controlling person's name, address, jurisdiction(s) of tax residence and TIN(s)(or functional equivalent) and date of birth (subject to the exceptions and qualifications outlined above).

⁹⁴ However, they would not be required to provide their TIN (or functional equivalent) if either they do not have a TIN (or functional equivalent) or their jurisdiction of tax residence does not require the collection of TINs,

⁹⁵ The Reporting NZFI is also required to report undocumented accounts.

The prescribed financial information that the Reporting NZFI would need to report would include the trust's account balance or value and amounts paid or credited to (or with respect to) the trust account – which would be attributed in full to any reportable controlling persons.

The reader should refer to paragraph 6.2 of this guidance for further details about the information they need to report about such reportable accounts.

11.2 Application of CRS to specific types of trusts

This guidance now outlines how the above principles apply to the following types of trusts:

- Family trusts;
- Charitable trusts;
- Foreign trusts; and
- Solicitors' trust accounts.

11.2.1 Family trusts

A “family trust” is simply a trust that has a beneficiary class centred around a family group. There are no other defining features in respect of the assets they hold or activities they carry out that separates family trusts from other discretionary trusts. They operate in a spectrum from “simple trusts” that hold one asset (i.e. a family home) through to trusts that hold numerous complex assets and/or engage in complex financial dealings. As such, there is no “one size fits all” approach to the treatment of family trusts for CRS purposes.

11.2.1.1 *Family trusts that are financial institutions*

A family trust will either be a financial institution or a NFE.

A family trust will generally not carry on a business for customers. This means that the only category of financial institution which could apply to family trusts is the managed investment entity category. The key elements of this category are that:

- The trust derives its income primarily (50% or more) from investing, reinvesting or trading in financial assets over the specified period.
- The trust is managed by a financial institution (other than a managed investment entity).

If a family trust is a financial institution (i.e. a managed investment entity) and has only⁹⁶ New Zealand trustees it will, therefore, be a New Zealand financial institution.

A New Zealand financial institution family trust will be a Reporting NZFI with CRS due diligence and reporting obligations, unless it is a Non-Reporting NZFI. The category of Non-Reporting NZFI that is most likely to apply to such family trusts is the trustee documented trust category and is outlined in detail in paragraph 3.5.

The due diligence and reporting obligations that a Reporting NZFI family trust will have are outlined in paragraph 11.1.5.

Example 1: *A family trust has the following assets:*

- *Shares;*
- *Bonds;*
- *A rental property; and*
- *Units in various Reporting NZFI unit trusts (that are managed investment schemes).*

The family trust derives 80% of its income from the shares, bonds and units over the specified period. The family trust derives the other 20% of its income from its rental property.

Is the family trust a financial institution?

No: The family trust is not in business. Therefore, the only way that it could be a financial institution is if it is a managed investment entity. The trust derives its income primarily (50% or more) from financial assets (the shares, bonds and units) over the specified period. However, the trust is not managed by a financial institution. It is important to note, in this regard, that the fact that the trust holds units in various Reporting NZFI unit trusts does not mean that those unit trusts manage the trust. Therefore, the trust is not a managed investment entity. This means that it is not a financial institution.

Example 2: *The facts are the same as example 1. However, the trustee of the trust is concerned that the trust is not getting a good return from its investments in shares and bonds. Therefore, the trustee decides to engage a Reporting NZFI discretionary investment service provider (DIMS provider) to manage the trust's investments in shares and bonds. The trustee provides the Reporting NZFI with discretionary authority to buy and sell shares and bonds within the parameters of an agreed mandate.*

⁹⁶ As noted in paragraph 11.1.3, there is a rule that could potentially negate the trust's residency connection to New Zealand if the trust also had trustees in another Participating Jurisdiction and reported for CRS purposes in that other jurisdiction because it is tax-resident in that jurisdiction. This guidance will not set out this negation rule in detail here because New Zealand family trusts will typically only have trustees that are New Zealand tax residents.

Is the family trust a financial institution?

Yes: The family trust derived its income primarily from financial assets (the shares, bonds and units) over the specified period. The trust's assets are also managed (in part) by the Reporting NZFI (the DIMS provider). Therefore, the trust is a managed investment entity financial institution.

11.2.1.2 Family trusts that are NFE account holders

If a family trust is not a financial institution it will be a NFE (by default). If a NFE family trust holds an account with a Reporting NZFI they will be subject to due diligence by that NZFI. This means that they (along with other persons connected to the trust) may be asked to provide a self-certification and other information about whether they are a relevant foreign tax resident to assist the Reporting NZFI with its own due diligence, and may be subject to penalties if they fail to provide the information within a reasonable period of time. This is outlined in detail in paragraph 9.1.1.

11.2.2 Charitable trusts

11.2.2.1 Charitable trusts that are financial institutions

A charitable trust will either be a financial institution or a NFE.

A charitable trust is unlikely to be carrying on a business for customers. Therefore, as is the case with respect to family trusts, the circumstances when a charitable trust will be a financial institution are likely to be limited to when the charitable trust is a managed investment entity. For example where:

- the trust derives its income primarily (50% or more) from investing, reinvesting, or trading in financial assets over the specified period; and
- the trust is managed by a financial institution (other than a managed investment entity).

A charitable trust will be a managed investment entity in the same circumstances outlined above for family trusts (i.e. The examples would apply equally to charitable trusts).

If a charitable trust is a financial institution (i.e. a managed investment entity) and has only⁹⁷ New Zealand trustees it will, therefore, be a New Zealand financial institution.

A New Zealand financial institution charitable trust will be a Reporting NZFI with CRS due diligence and reporting obligations, unless it is a Non-Reporting NZFI. The category of Non-Reporting NZFI that is most likely to apply to such charitable trusts is the trustee documented trust category and is outlined in detail in paragraph 3.5.

⁹⁷ As noted in paragraph 11.1.3, there is a rule that could potentially negate the trust's residency connection to New Zealand if the trust also had trustees in another Participating Jurisdiction and reported for CRS purposes in that other jurisdiction because it is tax resident in that jurisdiction. This guidance will not set out this negation rule in detail here because New Zealand charitable trusts will typically only have trustees that are New Zealand tax residents.

The due diligence and reporting obligations that a Reporting NZFI charitable trust will have are outlined in paragraph 11.1.5.

11.2.2.2 Charitable trusts that are NFE account holders

A charitable trust that is not a financial institution will (by default) be a NFE. A NFE charitable trust may hold an account with a Reporting NZFI and be subject to due diligence by that NZFI.

An NFE charitable trust will generally be an active NFE coming within section VIII(D)(9)(h) of the CRS. However, the reader should refer to the definition of “active NFE” in Appendix 4 when seeking to determine if a charitable trust is an active NFE. If a New Zealand charitable trust is an active NFE it will not be reportable for CRS purposes (and there is no need to “look through” to controlling persons – compared with passive NFEs).

A charitable trust that holds an account with a Reporting NZFI may be asked for a self-certification as to whether it is an active NFE (in this regard). The trust should, in these circumstances, consider whether they meet the definition of “active NFE” and provide a self-certification within a reasonable period of time of receiving the request.

11.2.3 Foreign trusts

Broadly, a foreign trust is any trust where no settlor is or has been resident in New Zealand at any time.

Foreign trusts may have a New Zealand-resident trustee, often a limited liability company, which provides professional trustee services.

It is normal for all the beneficiaries of a foreign trust to be resident offshore but there is no prohibition against having New Zealand beneficiaries.

The CRS applies to foreign trusts in the same way as any other trust. This means that a foreign trust will either be a financial institution or a NFE.

A foreign trust is unlikely to be carrying on a business for customers (just like family trusts and charitable trusts). Therefore, the circumstances when a foreign trust will be a financial institution are likely to be limited to when it is a managed investment entity. That is:

- the trust derives its income primarily (50% or more) from investing, reinvesting, or trading in financial assets over the specified period; and
- the trust is managed by a financial institution (other than a managed investment entity).

If a foreign trust is a financial institution (i.e. a managed investment entity) **and** has only New Zealand tax-resident trustees it will, therefore, be a New Zealand financial institution. As noted above, most foreign trusts have a trustee that is tax resident in New Zealand, often a limited liability company, which provides professional trustee services.

However, **if** such a financial institution foreign trust also has another trustee in another Participating Jurisdiction, is tax resident in that other jurisdiction, and reports for CRS purposes in that jurisdiction because it is tax resident in that jurisdiction, the reporting overseas would negate the New Zealand CRS residency connection that would otherwise apply (i.e. the trust would not be a New Zealand financial institution).

A New Zealand financial institution foreign trust will be a Reporting NZFI with CRS due diligence and reporting obligations, unless it is a Non-Reporting NZFI.

The category of Non-Reporting NZFI that is most likely to apply to these financial institution foreign trusts is the trustee documented trust category and is outlined in detail in paragraph 3.5.

The due diligence and reporting obligations that a Reporting NZFI foreign trust will have are outlined in paragraph 11.1.5.

Example 1: A New Zealand foreign trust is settled by a settlor from jurisdiction A. The trust has a single New Zealand tax-resident trustee. The trust's beneficiaries are all located in jurisdiction A. The trust's only assets are direct interests in various investment properties, which it rents. The trust's income is derived solely from rental income over the specified period.

Is the foreign trust a financial institution?

No: The trust does not carry on a business for customers. The trust also does not derive its income primarily (50% or more) from investing in financial assets. All of its income is derived from investing in direct interests in real property, which is not a financial asset. Therefore, it is not a managed investment entity.

Example 2: The foreign trust in example 1 decides to rebalance its investments. It sells a number of its investment properties. It then uses the proceeds to invest in a portfolio of debt and equity instruments. The trust engages a Reporting NZFI fund manager to manage the portfolio. The trustee gives the fund manager discretionary authority to buy and sell debt and equity instruments within the parameters of an agreed mandate. The trust derives 60% of its income from the portfolio over the specified period.

Is the foreign trust a financial institution?

Yes: The trust derived its income primarily from financial assets (the portfolio of debt and equity instruments) over the specified period and is managed by a financial institution (the Reporting NZFI fund manager). Therefore, it is a managed investment entity.

Is the foreign trust a "New Zealand" financial institution?

Yes: The foreign trust is a financial institution (a managed investment entity). The foreign trust's sole trustee is also tax-resident in New Zealand. Therefore, the foreign trust is a NZFI. This means that the foreign trust will be a Reporting NZFI with CRS due diligence and reporting obligations in New Zealand, unless it comes within any of the categories of Non-Reporting NZFIs.

Example 3: The facts are the same as in example 2. However, the foreign trust adds a further trustee in jurisdiction B (a Participating Jurisdiction). The trust is tax-resident in jurisdiction B. The trustee reports all of the CRS information for the trust in jurisdiction B because the trust is tax-resident in jurisdiction B.

Is the financial institution trust still a “New Zealand” financial institution?

No: The exception applies here. The trust’s New Zealand connection is negated by the reporting overseas.

11.2.3.1 Foreign trusts that are NFE account holders

If a foreign trust is not a financial institution it will be a NFE (by default). If a NFE foreign trust holds an account with a Reporting NZFI it will be subject to substantive due diligence by that NZFI. This means that it (along with other persons connected to the trust) may be asked to provide a self-certification and other information to assist the Reporting NZFI with its own due diligence, and may be subject to penalties if it fails to provide the information within a reasonable period of time. This is outlined in detail in paragraph 9.1.1.

11.2.4 Solicitors’ trust accounts

The following guidance outlines how CRS due diligence and reporting applies to trust accounts that a Reporting NZFI bank maintains for a law firm. The same analysis can be applied to other professionals to the extent that the factual framework is materially the same. The same analysis can also be applied for FATCA purposes.

11.2.4.1 Background

A law firm which holds moneys on behalf of clients must open a trust bank account, into which client funds are deposited. The trust bank account must be designated “trust account” and the bank and other interested parties must be notified that the money in the trust account is trust money. A law firm can open more than one trust account.

A law firm is under a duty to ensure whenever practicable that client moneys earn interest. It is pursuant to this duty that a law firm may advise a client that moneys held in a law firm’s general trust account be placed into an Interest Bearing Deposit Account (IBDA).

According to the Lawyers Trust Accounting Guidelines the following points apply to IBDA:

- Each client must have its own separate IBDA (the bank records must show that there are separate client accounts, grouped so that it is clear that all of the IBDAs are within the control and responsibility of a law firm).
- Paragraph 9.4 of the guidelines describes how a bank will administer the IBDA. Key points are:

- The bank maintains separate accounts, interest and tax calculations for each client.
- The bank credits each IBDA with interest as it accrues.
- On 31 March each year, the bank will issue resident withholding tax certificates.
- When the bank sends a RWT certificate, the law firm must send the certificate to the relevant clients for action by them in respect of their tax returns.

11.2.4.2 Money in the general trust account

A Reporting NZFI bank that maintains a law firm’s general pooled trust account may take the following approach when carrying out due diligence on the account where funds are not “designated” in the name of the clients (compared with IBDA’s where there is a separate designated client account with the bank for the purpose of allocating interest):

The approach is that where:

- the funds of underlying clients of the law firm are held on a pooled basis with a bank;
- the only person identified in relation to the bank account is the law firm; and
- the law firm is not required to disclose or pass its underlying client or clients’ information to the bank for the purposes of AML/KYC or other regulatory requirements –
- the bank is required to undertake due diligence procedures only in respect of the law firm.

For CRS purposes this means that a Reporting NZFI will need to determine the residency of the law firm and the status of the law firm, i.e. generally whether the law firm is a passive or active NFE (with active NFE classification most commonly applying).

11.2.4.3 Money held on IBDA

If a Reporting NZFI bank maintains IBDA’s in the names of a law firm’s clients it will have, therefore, identified the clients, and should treat each client IBDA as if it was a depository account directly made by the client. Each designated IBDA will be subject to the standard due CRS diligence procedures outlined above.

11.2.4.4 Excluded accounts

Some funds held in a law firm’s trust accounts (either in the general trust account or on IBDA) contain escrow funds that are excluded accounts for CRS purposes. For example, certain escrow funds relating to the sale and purchase of property are excluded accounts (see Appendices 1 and 5).

If a Reporting NZFI reasonably determines that funds in such a trust account are excluded escrow funds it will not be required to carry out due diligence on those funds – i.e. the account will be an excluded account.

11.3 Application of CRS to partnerships

This guidance now summarises how the CRS applies to partnerships.

A partnership is defined in section VIII(E)(3) of the CRS as being an “entity”. This is the case irrespective of whether it is structured as a legal person or a legal arrangement. This is broadly similar to FATCA where a partnership is also defined as being an “entity”.

All partnerships, including general partnerships, limited partnerships and limited liability partnerships or any similar legal arrangement will be entities for CRS purposes. This would include a partnership as defined in the Partnership Act 1908 and a limited partnership as defined in the Limited Partnership Act 2008.

The fact that a partnership is an “entity” for CRS purposes means that a partnership will either be a:

- financial institution; or
- NFE.

This guidance now outlines the circumstances when a partnership will be a Reporting NZFI with CRS due diligence and reporting obligations in New Zealand.⁹⁸

This will address the following points:

- when will a partnership be a “financial institution”;
- when will a partnership be a “New Zealand” financial institution; and
- when will a partnership be a “Reporting” New Zealand financial institution with due diligence and reporting obligations?

11.3.1 When will a partnership be a financial institution?

As noted above, a partnership can be a financial institution. The category of financial institution that is most likely to apply to partnerships is the investment entity category. For example, a partnership could (depending on the circumstances) be:

⁹⁸ This guidance will not focus on the circumstances when a partnership will be an NFE account holder. The same analysis outlined above at paragraph 11.1.6 for NFE account holder trusts would apply to partnerships in this context.

- an “in business” investment entity – if it derives its income primarily (50% or more over the specified period) from carrying out specified investment activities for customers; or
- a “managed” investment entity – if it derives its income primarily (50% or more over the specified period) from investing, reinvesting or trading in financial assets and is managed by a relevant financial institution.

Example 1: Partnership A invests in a portfolio of foreign equities. It engages a Reporting NZFI discretionary investment services provider (DIMS provider) to manage these investments. The partnership has given the Reporting NZFI DIMS provider discretionary authority to buy and sell such equities within the parameters of an agreed mandate. The partnership derived all of its income from these equities over the specified period.

Is the partnership an investment entity?

Yes: The partnership derived its income primarily (50% or more) from financial assets (foreign equities) over the specified period. The partnership is also managed by a financial institution (the Reporting NZFI DIMS provider). Therefore, the partnership is a managed investment entity.

A partnership could also (depending on the circumstances) come within one of the other categories of financial institution. The reader should refer to paragraph 3.1 of the guidance for detail on the potential application of those other categories.

11.3.2 When will a partnership be a New Zealand financial institution?

This then raises the question of when a financial institution partnership (for example, an investment entity partnership) will be a New Zealand Financial Institution (NZFI).

A financial institution partnership will be a NZFI if:

- it is resident in New Zealand (excluding offshore branches); or
- it has a branch located in New Zealand.

The general rule is that a partnership will be considered to be resident for CRS purposes based on **where it is tax-resident**.

However, partnerships do not always have a tax residence. Some jurisdictions treat partnerships as taxable units, sometimes even as companies. However, other jurisdictions such as New Zealand adopt a fiscally transparent approach where the partnership is disregarded for tax purposes.

A partnership that does **not** have a residence for tax purposes will be considered to be resident for CRS purposes in a Participating Jurisdiction (such as New Zealand) if:

- it is incorporated under the laws of the Participating Jurisdiction;

- it has its place of management (including effective management)⁹⁹ in the Participating Jurisdiction); or
- it is subject to financial supervision in the Participating Jurisdiction.

It is important to note that these criteria for determining the CRS residency of partnerships that do not have a residence for tax purposes have the potential to link a financial institution partnership to multiple jurisdictions.

Where such a financial institution is resident in two or more Participating Jurisdictions under these criteria, it will be subject to the reporting and due diligence obligations of the jurisdiction in which it maintains the financial account. This is to avoid duplication of obligations.

Example 2: Partnership A is a financial institution that operates in New Zealand. Partnership A is not tax resident in any jurisdiction, is unincorporated, and is not subject to financial supervision in any jurisdiction. However, Partnership A is effectively managed in New Zealand.

Partnership A is treated as a “resident” of New Zealand for CRS purposes. This is because it is effectively managed in New Zealand. It will be a NZFI.

11.3.3 When will a partnership be a Reporting NZFI?

A NZFI partnership will be a Reporting NZFI unless it comes within any of the categories of Non-Reporting NZFI. It is unlikely that any of these categories will apply to partnerships. Therefore, this guidance will proceed on the basis that the NZFI partnership being considered is a Reporting NZFI.

A Reporting NZFI partnership will need to carry out due diligence on its financial accounts to identify accounts held (and/or, in the case of passive NFE account holders, controlled) by relevant foreign tax residents and, if so, collect prescribed identity information about such persons.

The Reporting NZFI partnership’s financial accounts (in this regard) would include:¹⁰⁰

- Equity interests: Persons that have a capital or profit interest in the partnership; and
- Debt interests: Persons that have provided debt funding to the partnership.

⁹⁹ Page 192 of the CRS Commentary states that the “place of effective management” is the place where key management and commercial decisions that are necessary for the conduct of the entity’s business as a whole are in substance made. All relevant facts and circumstances must be examined to determine the place of effective management. An entity may have more than one place of management, but it can have only one place of effective management at any one time.

¹⁰⁰ It is assumed for these purposes that the Reporting NZFI partnership is an investment entity (the most likely category of financial institution to apply to partnerships.)

The Reporting NZFI partnership would need to carry out due diligence on such accounts and report prescribed identity and financial account information about reportable accounts they identify.¹⁰¹

11.3.4 What are the due diligence and reporting obligations of a partnership?

The due diligence and reporting obligations of such a partnership are in line with those referred to in paragraph 11.1.5 with respect to trusts.

11.4 Application of CRS to collective investment vehicles

The following guidance now provides a high-level outline of how the CRS applies to collective investment vehicles (CIVs). This will cover the following points:

- an outline of **what** constitutes a CIV;
- an outline of the circumstances **when** a CIV will be a Reporting NZFI; and
- an outline of **what** due diligence and reporting a Reporting NZFI CIV will need to carry out.

11.4.1 What is a collective investment vehicle?

A CIV is an entity that pools funds on behalf of investors for investment purposes. This would include the following (non-exhaustive) types of entities:

- Unit trusts;
- Managed funds;
- Group investment funds;
- Superannuation schemes; and
- Entities providing participating securities.

A “managed investment scheme” subject to section 9 of the Financial Markets Conduct Act 2013 (which would cover, for example, entities such as unit trusts and superannuation schemes) would also be a CIV.

A CIV will be a Reporting NZFI if all of the following are satisfied:

- the CIV would need to be a “financial institution”;

¹⁰¹ The Reporting NZFI would also need to report undocumented accounts.

- the CIV would need to be a “New Zealand” financial institution; and
- the CIV would need to be a “Reporting” NZFI (i.e. not a Non-Reporting NZFI).

This guidance will now explain these key building blocks to outline the circumstances where CIVs will be Reporting NZFIs with CRS due diligence and reporting obligations.

11.4.2 When will a collective investment vehicle be a financial institution?

A CIV will generally be an investment entity for CRS purposes. It is also possible, albeit less likely, that a CIV could come within another category of financial institution (for example, being a custodial institution).

A CIV will be an investment entity for CRS purposes if:

- It primarily conducts a financial services business (i.e. the collective pooling of funds and investing, administering, or managing of funds or money on behalf of investors). The CIV will be treated as primarily conducting a financial services business where its financial services income is 50% or more of its total gross income over the specified period; or
- It is managed¹⁰² by another financial institution (e.g. a trustee or investment manager which is a financial institution) and derives its income primarily (50% or more over the specified period) from investing, reinvesting, or trading in financial assets (as distinct from, for example, from direct interests in real property).¹⁰³

Example 1: Wide Trust is a New Zealand unit trust that carries on, as its business, collective portfolio management activities for customers. Wide Trust derived 80% of its income from such activities over the specified period.

Is the Wide Trust an “in business” investment entity?

Yes: Wide Trust performed specified investment activities (collective portfolio management) for customers over the specified period. Wide Trust also derived its income “primarily” (50% or more) from such activities over that period. Therefore, Wide Trust is an “in business” investment entity. This means that Wide Trust is a financial institution.

11.4.3 When will a collective investment vehicle be a NZFI?

A CIV that is a financial institution will be a “NZFI” if either:

¹⁰² The relevant “manager” in this context must be a financial institution that is not itself a “managed” investment entity.

¹⁰³ Refer to Commentary on section VIII in paragraph 17 of the CRS.

- it is resident in New Zealand (excluding branches located offshore); or
- it has a New Zealand branch.

The residency rules that apply for CRS purposes will depend on the type of entity that constitutes the CIV. The residency rules that apply in this regard are summarised in paragraph 3.2 of this guidance. However, most CIVs will be trusts. In broad terms, a financial institution CIV trust will generally¹⁰⁴ be resident in New Zealand for CRS purposes if it has a trustee that is a New Zealand tax resident.

11.4.4 When will a NZFI collective investment vehicle be a “Reporting” NZFI?

A NZFI CIV will be a Reporting NZFI unless it is a Non-Reporting NZFI.

A CIV will be a Non-Reporting NZFI under subparagraph B(1) of section VIII of the CRS **if** it is:

- a broad participation retirement fund;
- a narrow participation retirement fund;
- a pension fund of a Government entity, international organisation or Central bank;
- an exempt collective investment vehicle;
- a trustee documented trust, where the trust is a CIV; or
- determined by the Commissioner to be a Non-Reporting NZFI.

These categories are outlined in detail in appendices 6 and 7 of this guidance. The reader should also refer to pages 166 to 174 of the CRS Commentary for further detail.

11.4.5 What are the due diligence and reporting obligations of a Reporting NZFI collective investment vehicle?

A Reporting NZFI CIV will need to carry out due diligence on its financial accounts to identify accounts held (and/or, in the case of passive NFE account holders, controlled) by relevant foreign tax residents and, if so, collect prescribed identity information about such persons.

The Reporting NZFI CIV’s financial accounts (in this regard) would include:¹⁰⁵

¹⁰⁴ However, as noted above in paragraph 11.1.3 this residency connection can be negated if the trust is tax-resident in another Participating Jurisdiction and reports all of the relevant CRS information for the trust in that jurisdiction because it is tax-resident in that jurisdiction.

¹⁰⁵ It is assumed for these purposes that the Reporting NZFI CIV is an investment entity (the most likely category of financial institution to apply to CIVs.)

- Equity interests: The funds from investors that have invested in the CIV; and
- Debt interests: Amounts loaned to the CIV or that are otherwise debt interests in the CIV.

The Reporting NZFI CIV would need to carry out due diligence on such accounts and report prescribed identity and financial account information about reportable accounts it identifies.¹⁰⁶

The due diligence and reporting obligations of such a CIV are in line with those referred to in paragraphs 11.1.5 with respect to trusts.

Example: Fund B is a Reporting NZFI CIV investment entity unit trust. Fund B has a Reporting NZFI trustee and a Reporting NZFI fund manager (both are investment entities that are Reporting NZFIs in their own right). Fund B also has a Reporting NZFI custodian that holds various instruments on its behalf.

Investors receive units in Fund B in return for their investments and Fund B uses the pooled funds to invest in overseas shares and bonds. The custodian holds these interests on behalf of Fund B. The interests that the investors have in Fund B are in scope financial accounts (i.e. not excluded accounts).

Fund B will need to carry out due diligence on:

- Equity interest account holders: The persons that have placed amounts in the fund, including, if such persons are passive NFEs, any controlling persons; and
- Debt interest account holders: The persons that have loaned amounts to the fund or that otherwise have debt interests in the fund, including, if such persons are passive NFEs, any controlling persons.

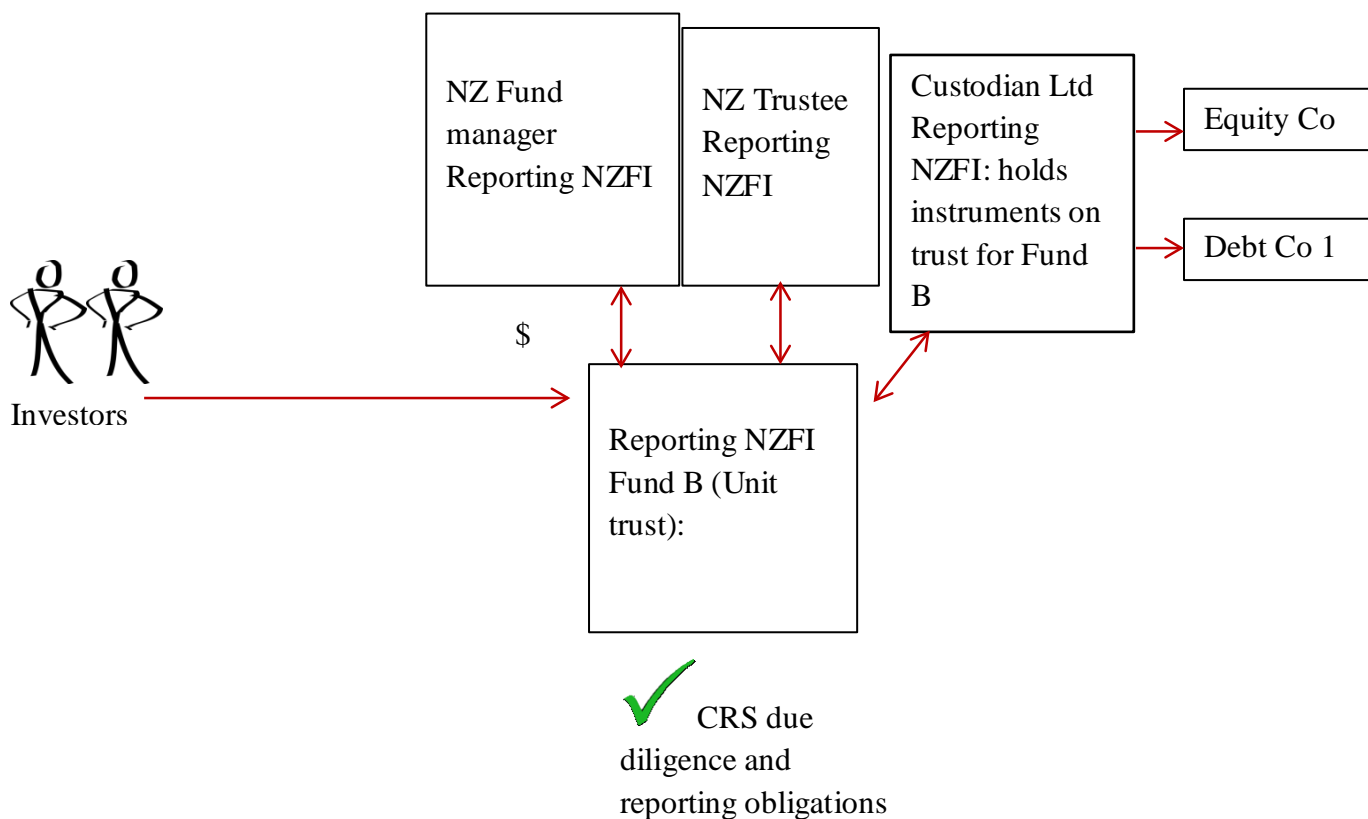
Fund B would need to carry out due diligence on such accounts (i.e. to identify accounts held and/or, in the case of passive NFEs, controlled by relevant foreign tax residents), collect prescribed identity information about any relevant foreign tax residents they identify, and report prescribed identity and financial account information about any reportable accounts.¹⁰⁷

Fund B's due diligence and reporting obligations are in line with those referred to in paragraphs 11.1.5 with respect to trusts.

It is important to note that the NZ fund manager, NZ trustee, and Custodian Ltd would not be required to report on Fund B. This is because Fund B is a financial institution from a Participating Jurisdiction (New Zealand), so is excluded from being reportable (i.e. financial institutions are excluded from the definition of "Reportable Person"). This is an anti-duplicative measure.

¹⁰⁶ The Reporting NZFI would also need to report undocumented accounts.

¹⁰⁷ The Reporting NZFI would also need to report undocumented accounts.



11.5 Deceased estates

For the purposes of the following, the reference to “estate” should be read as covering New Zealand’s particular rules on the transfer or inheritance of rights and obligations in the event of death (for example the rules of universal succession).¹⁰⁸

This guidance will now consider the issues of:

- whether a deceased estate will be a financial institution; and
- whether deceased estates will be subject to CRS due diligence.

11.5.1 Will a deceased estate be a financial institution?

Deceased estates are a type of trust, but will generally not be financial institutions.

¹⁰⁸ CRS Commentary on section VIII paragraph 92.

So long as the administration of the estate is directed at the winding up and distributing of assets and not an indefinite activity of investing, reinvesting or trading financial assets, it will not be a financial institution.¹⁰⁹

However, a testamentary trust set up as a result of the winding up of an estate could (depending on the circumstances) be a financial institution, just like the other types of trusts outlined above.

11.5.2 Whether accounts held by deceased estates are subject to due diligence

An account held by a deceased estate will also be an “excluded account” where the Reporting NZFI that maintains the account is in possession of a formal notification of the account holder’s death. The formal notification would include a copy of the deceased’s will, or the deceased’s death certificate. The estate must be the sole account holder. The exemption does not apply if there are two or more account holders even where the estate is one of the account holders.

Example 1 (exempt account): An account holder has died leaving an open New Zealand bank account with a Reporting NZFI. The account is frozen. The executors complete and provide a death certificate and a copy of the deceased’s will to the bank. The estate is the sole account holder. The executor winds up the estate through paying debts and distributing property. The account is an excluded account.

Example 2 (non-exempt account): Same facts as Example 1, except the account holder at death holds the New Zealand bank account jointly with another person. The exclusion does not apply. This is because the exclusion does not apply where there are two account holders (even where the estate is one of the account holders). The account will be an in scope financial account. The Reporting NZFI would need to carry out due diligence on the account.

¹⁰⁹ CRS Commentary on section VIII paragraph 17. Subparagraph A(6)(b) definition of “Investment Entity”.

Appendix 1: A Comparison between the CRS and FATCA

Pages 87–101 of the OECD’s CRS implementation handbook contain a detailed comparison of CRS and FATCA. The following is intended to supplement the comparison in the handbook by focusing on some of the most important similarities and differences between the CRS and FATCA:

1 FATCA Inter-Governmental Agreement

FATCA is U.S. law enacted in 2010 to target tax evasion by U.S. taxpayers using foreign accounts. FATCA requires foreign financial institutions (FFIs) to report to the Internal Revenue Service (IRS) information about financial accounts held by U.S. taxpayers, or by foreign passive entities in which U.S. taxpayers hold any ownership and/or control interests.

Via FATCA Intergovernmental Agreements (FATCA IGAs), FFIs must register with the IRS, and comply with the FATCA IGA that is in effect in their tax jurisdiction (including carrying out due diligence on their financial accounts and reporting prescribed information about reportable accounts to the local revenue authority – Inland Revenue, in the case of New Zealand – for exchange with the U.S.).

The NZ/U.S. FATCA IGA is defined as the “FATCA agreement” in section 3 (Interpretation) of the Tax Administration Act 1994, as:

...the Agreement between the Government of New Zealand and the Government of the United States of America to Improve International Tax Compliance and to Implement FATCA, commonly known as the intergovernmental agreement, which was brought into force for New Zealand by the Double Tax Agreements (United States of America–FATCA) Order 2014 (LI 2014/209), as amended from time to time

2 Common Reporting Standard

The “Common Reporting Standard” (CRS), formally referred to as the Standard for Automatic Exchange of Financial Account Information, is an information standard to facilitate the automatic exchange of financial account information between jurisdictions, developed in the context of the Organisation for Economic Co-operation and Development (OECD) and the Group of Twenty countries (G20). The aim of the CRS for AEOI is to detect and deter offshore tax evasion. The CRS is broadly similar to FATCA, but is multilateral in nature.

The legal basis for exchange of data is generally the *Convention on Mutual Administrative Assistance in Tax Matters* and much of the structure of the CRS is based on the FATCA IGA model.

The CRS will be defined three different ways in section 3 (Interpretation) of the *Tax Administration Act 1994*; as:

- “CRS publication”;¹¹⁰
- “CRS standard”;¹¹¹
- “CRS applied standard”.¹¹²

3 Residence

Due diligence and reporting nexus of financial institutions

The CRS and the FATCA IGA use the residence of a financial institution (i.e. New Zealand resident – excluding a foreign branch) as the due diligence and reporting nexus between that financial institution and a particular jurisdiction:

- See the definition of “Participating Jurisdiction Financial Institution” in Section VIII(A)(2) of the CRS; and
- See the definition of “New Zealand Financial Institution” and “Reporting U.S. Financial Institution” in Article 1(1)(l) and (p) respectively of the FATCA IGA.

New Zealand branches of foreign financial institutions are also included in the AEOI due diligence and reporting nexus.

The CRS Commentary contains detailed guidance on the definition of “residence” for a financial institution for determining whether a financial institution is “resident” in a Participating Jurisdiction, and therefore has a due diligence and reporting nexus to that jurisdiction (excluding foreign branches).

A financial institution is generally treated as resident for CRS purposes in this regard, based on where it is resident for income tax purposes.

However, special rules apply for:

- Financial institution trusts; and

¹¹⁰ “**CRS publication** means the *Standard for Automatic Exchange of Financial Account Information in Tax Matters*, published by the Organisation for Economic and Cultural Development”.

¹¹¹ “**CRS standard** means the *Common Standard on Reporting and Due Diligence for Financial Account Information*, as amended from time to time, which is a standard – (a) developed by the Organisation for Economic and Cultural Development and the Group of Twenty countries; and (b) agreed by the Council for the Organisation for Economic and Cultural Development on 15 July 2014; and (c) contained in Part IIB of the CRS publication”.

¹¹² “**CRS applied standard** means the CRS standard as modified by section 185O [Application of Common Reporting Standard] for the determination of requirements under this Act”.

- Financial institutions (other than trusts) that do not have a residence for tax purposes (i.e. a partnership is an example of a type of entity that often does not have a residence for tax purposes).

A financial institution trust is generally treated as resident for CRS purposes based on where its trustees are resident for tax purposes. However, if the trust has multiple trustees in different Participating Jurisdictions, and the trust fully reports all of the CRS information about the trust in one Participating Jurisdiction because it is tax resident in that jurisdiction, it is deemed to be CRS resident in that jurisdiction only (negating the trust’s CRS residency in the other relevant jurisdictions).

A financial institution (other than a trust) that does not have a residence for tax purposes (e.g. because it is treated as fiscally transparent) is treated as resident for CRS purposes based on the following criteria:

- Place of incorporation under the laws of the Participating Jurisdiction;
- Place of management (including effective management) in the Participating Jurisdiction; or
- Where it is subject to financial supervision in a Participating Jurisdiction.

Where this test results in a financial institution (other than a trust) being resident in two or more Participating Jurisdictions, the financial institution is subject to the CRS due diligence and reporting obligations in each of the Participating Jurisdictions in which it maintains financial account(s). This is to avoid duplicate reporting.

The FATCA IGA does not have an explicit definition of “residence” for a financial institution i.e. for determining when a financial institution is resident in New Zealand and is therefore a “New Zealand” financial institution (excluding foreign branches).

The FATCA IGA provides that for terms not defined in the FATCA IGA, the Competent Authorities can agree a common meaning. In the absence of any agreed common meaning, any term has the meaning it has at that time under the applicable tax law of the party applying the FATCA IGA (i.e. New Zealand tax law, when considering whether an entity is a NZFI for FATCA purposes).

The residency of a financial institution for FATCA purposes is determined as follows:

- Any relevant New Zealand tax law definitions of residency applicable to the entity. This is broadly in line with the general rule that applies to determine the residency of a financial institution for CRS purposes (referred to above);

- For financial institution trusts (other than unit trusts), applying the following definition that was agreed between the Competent Authorities of New Zealand and the U.S. on 21 August 2015:
 - Where the entity is a trust (other than a unit trust), and prior to 1 April 2017 the entity may rely on any reasonable definition for the term “resident in New Zealand” including that a trust is established under the laws of New Zealand, whereby the trust is settled, executed and governed by New Zealand law, or
 - Alternatively, beginning on or before 1 April 2017, an entity that is a trust (other than a unit trust) can be treated as resident in New Zealand if one or more trustees is resident in New Zealand for New Zealand income tax purposes, or the trust is managed by a branch of a trustee located in New Zealand (provided that the branch of the trustee and trust are subject to regulatory supervision in New Zealand). However, this residency is negated if there is reporting in another Participating Jurisdiction. This residency rule is broadly in line with the CRS trust residency rule (referred to above). This rule becomes mandatory from 1 April 2017; and
- Certain entities for FATCA (e.g. partnerships or joint ventures), are not treated as legal entities for New Zealand tax law. In this context, Inland Revenue considers that (unless the entity is treated as a trust for New Zealand tax purposes, and so subject to the above-mentioned trust residency tests), the special residency rules in the CRS Commentary (referred to above) that are used for CRS purposes to determine the residency of such entities can also be used for FATCA purposes. This is supported by the fact that the CRS framework is based largely on the FATCA IGA.

Dual or multiple residency of account holders and controlling persons

For CRS purposes, in the case of dual or multiple residency of an account holder or Controlling Person (determined on the basis of the due diligence procedures), CRS information is collected for all jurisdictions in which the account holder (or Controlling Person) is found to be resident for tax purposes.

This rule is not contemplated under the bilateral FATCA IGA between New Zealand and the U.S. The FATCA IGA focuses on identifying and collecting (for reporting and exchange) information about US citizens and tax residents. As long as the account holder (or Controlling Person) is a U.S. person, it does not matter (for FATCA purposes) that they may also be tax resident in another jurisdiction.

Passive NFEs and their controlling persons

If a Reporting NZFI maintains an account held by a passive NFE they will (for CRS purposes) need to identify the passive NFE's controlling persons and determine whether these persons are relevant foreign tax residents.

The same broad rule applies for FATCA (for passive NFEs), albeit that FATCA is about identifying "U.S." controlling persons.

However, there are two key differences:

- The Reporting NZFI will be required to identify such controlling persons for CRS purposes, irrespective of where the passive NFE is tax resident. However, they will only be required to identify these controlling persons for FATCA purposes if the passive NFE is a "non-U.S. entity"; and
- The passive NFE may be a relevant foreign tax resident that is reportable for CRS purposes, irrespective of whether any of its controlling persons are relevant foreign tax residents. In contrast, a passive NFE will not be reportable for FATCA purposes (as, by definition, it is not a US. Person).

In this respect the CRS adopts a different approach from the FATCA IGA, so two different approaches need to be maintained.

4 *Non-Reporting Financial Institutions*

FATCA only – Exempt Beneficial Owners and Deemed Compliant FFIs

Annex II of the FATCA IGA describes which entities are treated as Non-Reporting NZFIs, as:

- Exempt Beneficial Owners (i.e. entities that are exempt from reporting and withholding under the FATCA rules); and
- Deemed Compliant Foreign Financial Institutions (i.e. financial institutions that are deemed to be compliant with the FATCA requirements provided that certain matters are satisfied).

In addition, the definition of a "Non-Reporting New Zealand Financial Institution" in Article 1(1)(q) of the FATCA IGA includes Deemed-Compliant Financial Institutions or Exempt Beneficial Owners described in the U.S. FATCA Regulations.

The CRS does not contain these sub-categories. The CRS only requires Entities to determine whether they are in the categories of Reporting NZFIs or Non-Reporting NZFIs.

Therefore the FATCA Non-Reporting financial institution subcategories of Exempt Beneficial Owner and Deemed Compliant FFI are irrelevant for CRS purposes.

FATCA only – Non-Reporting NZFIs

Annex II to the FATCA IGA includes several categories of entities that are treated as Non-Reporting NZFIs, which are *not* included in the list of Non-Reporting financial institution for CRS purposes. These are:

- Treaty Qualified Retirement Funds;
- Local Banks; and Financial Institutions with a Local Client Base;
- Certain non-registering local banks;
- Financial Institutions with only low-value accounts;
- Investment Entity wholly owned by Exempt Beneficial Owners;
- Sponsored Investment Entity and Controlled Foreign Corporation;
- Sponsored Closely Held Investment Vehicles; and
- Investment Advisors and Investment Managers (see Sections II through IV of Annex II of the FATCA IGA).

Further categories are also treated as Non-Reporting financial institutions in the definition in the FATCA IGA by reference to Financial Institutions treated as Deemed-Compliant Financial Institutions or Exempt Beneficial Owners in the current U.S. FATCA Regulations.

These categories are either not suitable for the CRS (due to the differing context or approach of the CRS compared with the FATCA IGA, for example, Treaty Qualified Retirement Funds), or have been incorporated elsewhere in the CRS (for example, investment advisers and investment managers):

- Treaty Qualified Retirement Funds, Local Banks, and financial institutions with a Local Client Base, do not translate into a multilateral setting, so the CRS does not exclude these types of financial institutions;
- Financial institutions with only low-value accounts were not included as they rely on the USD 50,000 threshold for certain types of accounts, which is not present in the CRS;

- Investment entity wholly owned by Exempt Beneficial Owners. These entities are treated as Non-Reporting NZFIs for FATCA purposes on the basis that none of their direct account holders are persons that trigger any reporting obligation. As noted above, the Exempt Beneficial Owner sub-category is not used in the CRS;
- Sponsored Investment Entity and Controlled Foreign Corporation; and Sponsored Closely Held Investment Vehicle: These exceptions are based on the condition that a sponsor is performing the due diligence and reporting on behalf of the financial institution. These categories do not apply in CRS. However, the CRS does allow a financial institution to use a service provider to carry out their reporting and due diligence obligations (or where relevant, the CRS also allows a “trustee-documented trust” exclusion similar to that which applies in the FATCA IGA); and
- Investment Advisors and Investment Managers: A number of financial institution investment advisors and investment managers may not maintain accounts (see the exclusion from the definition of “financial account” in CRS Section VIII(C)(1)(a), which can apply to certain financial institution investment advisors and managers). If this is the case, such financial institutions will not have any due diligence and reporting obligations.

CRS – Non-Reporting Financial Institutions – Government Entities, International Organisations, Central Banks (including related pension funds)

Government entities, international organisations, and central banks that are financial institutions (including their pension funds) are treated as Non-Reporting New Zealand Financial Institutions for both FATCA (see sections I(A), I(B) and II(D) of Annex II of the FATCA IGA) and CRS purposes (see CRS Section VIII(B)(1)(a) & (b)) provided that certain defined requirements are met.

CRS – Non-Reporting Financial Institutions – Broad & Narrow Participation Retirement Funds

Section II(B) of Annex II of the FATCA IGA provides that a Broad Participation Retirement Fund is a Non-Reporting NZFI. Section II(C) of Annex II of the FATCA IGA provides that a Narrow Participation Retirement Fund is a Non-Reporting NZFI.

Similarly, Section VIII(B)(1)(b) of the CRS provides that Broad Participation Retirement Funds and Narrow Participation Retirement Funds are Non-Reporting financial institutions.

CRS – Non-Reporting Financial Institutions – Qualified Credit Card Issuers

Section III(D) of the FATCA IGA provides that a Qualified Credit Card Issuer is a Non-Reporting NZFI.

Similarly, Section VIII(B)(1)(b) of the CRS provides that a Qualified Credit Card Issuer is a Non-Reporting financial institution.

CRS – Non-Reporting Financial Institutions – Exempt Collective Investment Vehicles

Certain Collective Investment Vehicles as set out in sections IV(E) and (F) of Annex II to the FATCA IGA are treated as Non-Reporting NZFIs because the account holders are, for example: not Specified U.S. Persons; or are financial institutions which report on their account holders; or are low-risk Exempt Beneficial Owners.

In the CRS these entities are referred to as Exempt Collective Investment Vehicles (see CRS Section VIII(B)(9)). The conditions in the CRS to qualify as an Exempt Collective Investment Vehicle have been amended to take into account the multilateral context, and remove U.S. specificities.

For CRS purposes, an Exempt Collective Investment Vehicle is an investment entity where all account holders are not Reportable Persons (except a Passive NFE with Controlling Persons who are Reportable Persons).

The logic is the same for treating these types of entities as Non-Reporting financial institutions for both FATCA and CRS purposes.

CRS – Non-Reporting Financial Institutions – “Trustee-Documented Trust”

Section IV(A) of Annex II of the FATCA IGA provides that a financial institution trust established under the laws of New Zealand is a Non-Reporting NZFI to the extent that the trustee of the trust is a Reporting U.S. Financial Institution, Reporting Model 1 FFI, or Participating FFI and reports all information required to be reported pursuant to the IGA with respect to all U.S. Reportable Accounts of the trust.

Section VIII(B)(1)(E) of the CRS provides that a financial institution trust is a Non-Reporting financial institution to the extent that the trustee of the trust is a reporting financial institution and reports all information required to be reported with respect to all Reportable Accounts of the trust.

Note that for both AEOI regimes, the “trustee” of a trustee-documented trust must be a financial institution. Therefore, a New Zealand financial institution trust, with a financial institution trustee that carries out reporting for it, is able to be a Non-Reporting financial institution “trustee-documented trust” for both FATCA and CRS purposes.

However, for both regimes, the status of the trust as being a Non-Reporting financial institution is contingent on the financial institution trustee fully carrying out the requisite due diligence and reporting on behalf of the trust.

CRS – other low-risk Non-Reporting Financial Institutions

The CRS includes the additional general category of other low-risk Non-Reporting financial institutions to be determined under domestic law (see CRS Section VIII(B)(1)(c)).

Any entity which is a Non-Reporting NZFI in Annex II of the FATCA IGA and does not fall into a specific category of Non-Reporting financial institution for CRS, needs to consider whether they are eligible to be treated as a Non-Reporting financial institution, viz. as a low-risk entity under Section VIII(B)(1)(c) of the CRS.

To be treated as a low-risk Non-Reporting financial institution, an entity that does not already fully meet any of the criteria of subparagraph B(1)(a) or (b) of Section VIII(B) of the CRS, must apply for a determination from the Commissioner and demonstrate that they meet the requirements of being a low-risk entity, by specifying why:

- Such an entity is a financial institution that presents a low risk of being used to evade tax; and
- Such an entity has “substantially similar characteristics” to those entities already described in Section VIII(B)(1)(a) or (b) of the CRS; and
- Treating the entity as a Non-Reporting financial institution would not frustrate the purposes of the CRS.

Inland Revenue will produce a list of entities that it has determined as being Non-Reporting financial institutions.

In this regard, the CRS range of entities likely to be treated as low-risk non-reporting entities is very narrow because of the requirement that the entity has “substantially similar characteristics” to those entities already described in Section VIII(B)(1)(a) or (b) of the CRS.

5 *Excluded accounts*

CRS – Excluded Accounts

The CRS list of non-reportable excluded accounts that are not subject to due diligence or reporting, includes:¹¹³

- Retirement and pension accounts (there is a similar FATCA exclusion in Annex II(V)(B)(1) of the IGA);

¹¹³ CRS Section VIII(C)(17)(a) to (f).

- Non-retirement tax-favoured accounts (there is a similar FATCA exclusion in Annex II(V)(B)(2) of the IGA);
- Term life insurance contracts (there is a similar FATCA exclusion in Annex II(V)(C) of the IGA);
- Estate accounts (there is a similar FATCA exclusion in Annex II(V)(d) of the IGA);
- Escrow accounts (there is a similar FATCA exclusion in Annex II(V)(e) of the IGA); and
- Depository accounts due to non-returned overpayments (this category of account is not an excluded account in Annex II of the FATCA IGA).

CRS – Excluded Accounts – Retirement & pension accounts

For CRS purposes, a retirement or pension account can be an Excluded Account, provided that it satisfies all the requirements listed in Section VIII(C)(17)(a):

- The account is subject to regulation; and
- The account is tax-favoured; and
- Information reporting is required to the tax authorities with respect to the account; and
- Withdrawals are conditioned on reaching a specified retirement age, disability, or death, or penalties apply to withdrawals made before such specified events; and
- Either (i) annual contributions are limited to USD 50,000 or less, or (ii) there is a maximum lifetime contribution limit to the account of USD 1,000,000 or less, (excluding rollovers), in each case applying the CRS account aggregation and currency translation rules.

CRS – Excluded Accounts – Non-retirement tax-favoured accounts

For CRS purposes, a tax-favoured account can be an Excluded Account, provided that it satisfies all the requirements listed in Section VIII(C)(17)(b):

- The account is subject to regulation, either as a non-retirement savings vehicle or, in the case of a regulated non-retirement investment vehicle, it is also regularly traded on an established securities market; and

- The account is tax-favoured; and
- Withdrawals are conditioned on meeting specific criteria related to the purpose of the investment or savings account, or penalties apply to withdrawals made before such criteria are met; and
- Annual contributions are limited to USD 50,000 or less, applying the CRS account aggregation and currency translation rules, and excluding rollovers.

CRS – Excluded Accounts – Term life insurance contracts

For CRS purposes, certain term life insurance contracts are treated as Excluded Accounts if they meet all of the following requirements:

- The coverage of the life insurance contract ends before the insured individual attains the age of 90 years; and
- Periodic premiums, which do not decrease over time, are payable at least annually; and
- The contract has no value that any person can access (by withdrawal, loan, or otherwise) without terminating the contract; and
- Other than a death benefit, the amount (other than a death benefit) payable upon cancellation or termination of the contract cannot exceed the aggregate premiums paid for the contract, less the sum of mortality, morbidity, and expense charges (whether or not actually imposed) for the period or periods of the contract's existence and any amounts paid prior to the cancellation or termination of the contract; and
- The contract is not held by a transferee for value.

CRS – Excluded Accounts – Estate accounts

For FATCA and CRS purposes, an account of an estate is an excluded account if the account is held solely by an estate, and the documentation for such account includes a copy of the deceased's will or death certificate.

This exclusion applies to simple estates that go through probate then testamentary amounts are distributed to beneficiaries of the estate within a reasonable period of time.

Note that this excluded account status, for FATCA or CRS purposes, does not apply to a testamentary trust that has been formed under the deceased's will.

CRS – Excluded Accounts – Escrow accounts

For CRS purposes, a certain escrow account is treated as an excluded account, if it is established in connection with:

- A court order or judgment; or
- A sale, exchange, or lease of real or personal property, provided that the account was established for such purposes; or
- An obligation of a financial institution servicing a loan secured by real property to set aside a portion of a payment solely to facilitate the payment of taxes or insurance related to the real property at a later time; or
- An obligation of a financial institution solely to facilitate the payment of taxes at a later time.

A similar escrow account exclusion applies for FATCA purposes.

CRS – Excluded Accounts – Depository accounts (overpayments)

The CRS excludes (as excluded accounts) certain depository accounts that exist solely because a customer makes a payment in excess of a balance due with respect to a credit card or other revolving credit facility and the overpayment is not immediately returned to the customer (provided that specified policies and procedures are implemented).

There is no corresponding exclusion in Annex II of the FATCA IGA.

However, financial institutions that maintain such accounts may, depending on the circumstances, come within the definition of “qualified credit card issuer” in section III(D) of the FATCA IGA, and therefore be Non-Reporting NZFIs. Therefore, if this is the case a similar result will apply for FATCA purposes (i.e. the accounts would be excluded from due diligence).

Other low-risk Excluded Accounts

The CRS includes an additional general category of low-risk excluded account to be determined under domestic law (CRS Section VIII(C)(17)(g)).

In contrast, the excluded accounts contained in the FATCA IGA have been agreed through a bilateral agreement.

While there is considerable overlap between the excluded account definitions under the CRS and the FATCA IGA, there is not a complete overlap.

Any NZFI that maintains a financial account which is specifically referred to as an excluded account in Annex II of the FATCA IGA, but **not** covered by any of the types of excluded accounts already in

the CRS, needs to apply to the Commissioner for a determination for the account to be treated as a low-risk excluded account.

To qualify as low-risk excluded account for CRS purposes, the following conditions must be satisfied:

- The Account must be a financial account that presents a low risk of being used to evade tax; and
- The account must have “substantially similar characteristics” to any of the excluded accounts already listed in the CRS (see CRS Section VIII(C)(17)(a) to (f)); and
- Treatment as an excluded account would not frustrate the purposes of the CRS.

Inland Revenue will produce a list of accounts that it has determined to be excluded accounts.

6 *Due diligence and reporting*

Account closure

Under the FATCA IGA, where Reportable Accounts are closed in the reporting period, a financial institution must report the account balance or value immediately before closure (see Article 2(a)(4) of the FATCA IGA).

However, under the CRS only the fact that the Reportable Account has been closed is required to be reported (see Section I(A)(4)-(7) of the CRS), along with relevant total amounts of income, gross proceeds, or redemption amounts paid or credited to the account during the reporting period.

Average monthly balance reporting

This option is not allowed for CRS purposes in New Zealand. The CRS does not permit reporting of the average monthly balance of a financial account as being the balance of the financial account for the reporting period. This approach aligns with FATCA.

Citizenship – pre-existing & new individual accounts

Annex I to the FATCA IGA includes indicia for a pre-existing individual account of identification of the account holder as a U.S citizen or resident (see section II(B)(1)(a) of Annex I of the FATCA IGA), as well as self-certification of a new individual account with regard to U.S. citizenship or residency (see also Section III(B) of Annex I of the FATCA IGA).

Under U.S. tax law, a U.S. tax resident includes a U.S. citizen. The FATCA citizenship requirements were designed solely with the U.S. tax law in mind.

Internationally, tax residency is generally based on residency as opposed to citizenship. Therefore the CRS does not focus on citizenship.

Currency translation

The currency conversion rules for CRS and the FATCA IGA are different.

The FATCA IGA prescribes that when applying the thresholds USD amounts must be converted into non-USD amounts using the published spot determined as of the last day of the calendar year preceding the year in which the financial institution is determining the balance or value (see Section VI(C)(4) of Annex I to the FATCA IGA).

Under the CRS and its Commentary, jurisdictions can convert USD amounts in the CRS by applying domestic law methodologies (e.g. see section YF 1(2) of the Income Tax Act 2007 regarding foreign currency conversion and the use of spot rates).

Additionally, new Schedule 2 (clause 12) of the Tax Administration Act 1994 allows a Reporting NZFI to treat all dollar amounts referred to in the CRS as being in New Zealand dollars.

Date of birth

Date of birth has received additional emphasis under the CRS to enhance the accuracy of data matching in an international and multilateral context.

Pre-existing accounts – date of birth

The CRS requires the collection and reporting of an account holder's (or, in the case of passive NFE account holders, Controlling Person's) date of birth for pre-existing accounts where the account holder (or controlling person), is a Reportable Person and the account is a Reportable Account. A Reporting NZFI that does **not** already have this information in its records is required to use reasonable efforts to obtain this date of birth information by the end of the second reporting period following the period when the account is identified as being a reportable account.

The FATCA IGA only requires the reporting of date of birth for reportable pre-existing accounts where the TIN, or functional equivalent, is not available and the Reporting NZFI has such date of birth information in its records. However, for the 2017 and subsequent FATCA periods Reporting NZFIs will need to obtain and report TINs, as opposed to date of birth information.

New accounts – date of birth

For CRS purposes, date of birth information is required to be collected for new accounts when an account is held or controlled by a foreign tax resident, and the person is not an excluded person.

The issue of whether the account is reportable (and whether this information is reportable as part of that) depends on whether New Zealand has entered into an AEOI exchange relationship with the

person's jurisdiction of tax residence, or whether the financial institution has otherwise chosen to adopt the wider approach to reporting.

For FATCA purposes, date of birth information is **not** required to be collected or reported for new accounts.

Debt or Equity Interests in an Investment Entity

The FATCA IGA excludes as a financial account of an investment entity (that does not come within any other category of financial institution; i.e. that is solely an investment entity) interests in such entity that are "regularly traded on an established securities market" (see the definition of "financial account" in Article 1(1)(s) of the FATCA IGA).

However, the exclusion does not apply if the holder of the interest (other than a financial institution acting as an intermediary) is registered on the books of the investment entity (except for interests first registered on the books of the investment entity prior to 1 July 2014, and with respect to interests first registered on the books of the financial institution after 1 July 2014, a financial institution is not required to apply the exclusion until 1 January 2016; i.e. the accounts would be in scope on 1 January 2016).

The CRS does *not* exclude equity or debt interests in an investment entity from the definition of "financial account", where the interests are regularly traded on an established securities market.

Depository Accounts due to non-returned overpayments

This category is included in the definition of excluded accounts under Section VIII(C)(17)(f) of the CRS. It allows for the exclusion of depository accounts that meet certain requirements including that the financial institution implements policies and procedures either to prevent the customer from making an overpayment in excess of USD 50,000 or to ensure that any customer overpayment in excess of USD 50,000 is refunded to the customer within 60 days.

NZFI's that maintain such accounts could also (depending on the circumstances) come within the definition of "qualified credit card issuer" in section VIII(B)(8) of the CRS, and therefore be Non-Reporting NZFI's.

This category of Excluded Account is not contained in Annex II of the FATCA IGA. However, NZFI's that issue such accounts may (depending in the circumstances) come within the definition of "Qualified Credit Card Issuer" in section III(D) of the FATCA IGA, and therefore be Non-Reporting NZFI's.

Indicia – Pre-existing Individual Accounts – "hold mail" or "in-care-of" addresses

Under the FATCA IGA a "hold mail" or "in-care- of" address that is the sole address on file is (subject to the following) indicia for a pre-existing individual account. However, in the case of low-

value accounts, an “in-care-of address” outside the US or “hold mail” address shall not be treated as U.S. indicia (see Section II(B)(1)(g) of Annex 1 of the FATCA IGA).

Under the CRS, a “hold mail” or “in-care-of” address in a foreign jurisdiction is indicia **if** the institution does not have any other address on file for the account holder. In such circumstances, **and where there is no other relevant foreign indicia**, certain procedures must be followed to clarify the Account Holder’s status. If the financial institution is still not able to document the account holder’s status, the account must be reported as an “undocumented account” (see Section III(B)(2)(f), Section III(B)(5), & Section III(C)(6) of the CRS).

Indicia – Pre-existing Individual Accounts – standing instructions

The FATCA IGA includes all “standing instructions” to transfer funds to U.S. accounts as indicium for a pre-existing individual account (see Section II(B)(1)(e) of Annex I to the FATCA IGA).

Under the CRS, standing instructions (other than with respect to a depository account) to transfer funds to an account maintained in a foreign jurisdiction is indicium (see Section III(B)(2)(d) of the CRS).

This carve-out for standing instructions for transfers from depository accounts in the CRS was introduced to reduce burdens for financial institutions associated with the application of indicia search in a multilateral context.

Indicia – Pre-existing Individual Accounts – telephone number

The FATCA IGA includes, as an indicium for a pre-existing individual account, a U.S. telephone number (see Section II(B)(1)(d) of Annex I of the FATCA IGA).

Under the CRS a telephone number is only an indicium where it is in a foreign jurisdiction and there is no telephone number in New Zealand (see CRS Section III(B)(2)(c)).

Indicia search – New accounts

The approach to due diligence for new individual and entity accounts under CRS and FATCA is broadly similar, so some alignment can be achieved.

Under the CRS and FATCA IGA:

- The status of new individual account holders is determined by self-certification (indicia search is not available for new individual accounts); and
- For new entity accounts, the status of the account holder is based on a factual determination or self-certification. If the account holder is a Passive NFE, the status or residency of its Controlling Persons is based on self-certifications.

Pre-existing Individual High-Value Accounts

For both FATCA and CRS purposes, enhanced review due diligence procedures are required for “high value” pre-existing individual accounts having a balance or value that exceeds USD1,000,000 as of 30 June 2014 (FATCA) or 30 June 2017 (CRS).

Pre-existing Individual Account that becomes a High-Value Account

Both the CRS and FATCA IGA require that a financial institution, within a specified period of time, completes the enhanced review with respect to a pre-existing individual account that becomes a high-value account as of the last day of a subsequent reporting period.

The FATCA IGA requires such review to be performed within 6 months of the end of the reporting period in which the account becomes a high-value account. The CRS requires the enhanced review be performed within the reporting period following the period in which the account became a high-value account.

Treating Low-Value Accounts as High-Value Accounts

For CRS purposes, Reporting NZFIs are permitted to apply the due diligence procedures for high-value accounts to low-value accounts (CRS Section II(E)).

Treating accounts as New Accounts

For CRS purposes, Reporting NZFIs are permitted to apply the due diligence procedures for new accounts to pre-existing accounts (CRS Section II(E)).

Treating New Account as Pre-existing for Pre-existing Account Holder

The CRS contains rules allowing financial institutions to treat a new account opened by an account holder of a pre-existing account, as being a pre-existing account provided that certain conditions are satisfied. The conditions for a new account to be treated as a pre-existing account are similar to those in the current U.S. FATCA regulations. However the CRS contains one additional condition, which is that no new, additional, or amended information is required to be obtained from the account holder (other than for other CRS purposes).

The FATCA IGA does not explicitly provide for this option. A Reporting NZFI is permitted for FATCA purposes to use the definition of “Pre-existing Account” in the current U.S. FATCA Regulations in lieu of the definition in the FATCA IGA to be able to treat certain new accounts as pre-existing accounts. This means that if the Reporting NZFI is also a Reporting NZFI for CRS purposes, it is able to achieve a degree of alignment between FATCA and CRS due diligence procedures.

Place of birth – not required

The CRS (as applied in New Zealand) does not require the collection and reporting of an account holder's place of birth (i.e. there is no legal requirement to obtain and report an account holder's or a Controlling Person's place of birth).

Similarly, the FATCA IGA also does not require the reporting of an account holder's (or a Controlling Person's) place of birth for FATCA purposes (see Article 2(2)(a)(1) of the FATCA IGA).

Residence address test

The “residence address test”, a concessionary CRS due diligence option for low-value pre-existing individual accounts, is not available for FATCA purposes.

Self-certification – New Individual Account – date of birth

Under the CRS, financial institutions must obtain the date of birth of a new individual account holder (or Controlling Person, in the context of an account held by a Passive NFE) as part of the self-certification process (see Section I(A)(1) of the CRS).

This is not required under the FATCA IGA (see Article 2(2)(a)(1)).

Date of birth is reportable information under the CRS as it is a core element for data matching in an international context. There is a degree of alignment of due diligence between the CRS and other domestic regulatory requirements on this point, for example, New Zealand's AML legislation requires as part of the account holder identification process that a new individual account holder must include their date of birth on account opening.

Self-certification – unreliable or incorrect after change in circumstances

Under the CRS, where there is a change in circumstances for individual accounts and, as a result of that change, a self-certification previously relied upon may no longer be reliable or correct, the financial institution must obtain either:

- A valid self-certification that establishes the residence(s) for tax purposes of the account holder; or
- A reasonable explanation and documentation, as appropriate, supporting the validity of the original self-certification (and retaining a copy or a notation of such explanation and documentation).

See Section IV(c) of the CRS and pages 116 and 130 of the CRS Commentary.

Under the CRS, where there is a change in circumstances for a pre-existing or new entity account and (as a result of that change) a self-certification originally obtained is found to be incorrect or unreliable, the financial institution must re-determine the status of the account (see pages 148 and 142 of the CRS Commentary). This includes either obtaining a valid self-certification or confirming the validity of the original self-certification (similar to individual accounts).

For FATCA purposes, under Section III(B)(2) of Annex I of the FATCA IGA, where there is a change in circumstances with respect to a new individual account that causes the Reporting NZFI to know, or have reason to know, that a self-certification it has obtained is incorrect or unreliable, they must obtain a valid self-certification. If the Reporting NZFI is unable to obtain a valid self-certification, they must report the account as a U.S. Reportable Account. Broadly the same point would apply where a Reporting NZFI needs to obtain a self-certification in the context of trying to cure indicia for pre-existing individual accounts.

Under Sections (IV)(E)(3) and (V)(B) of Annex I of the FATCA IGA, where there is a change in circumstances for pre-existing or new entity accounts that causes the Reporting NZFI to know, or have reason to know, that a self-certification it has obtained is incorrect or unreliable, the Reporting NZFI must re-determine the status of the account, including obtaining any required valid self-certifications.

The CRS and FATCA procedures are broadly similar when there has been a change in circumstances that calls into question the validity of a self-certification that has been originally obtained. In broad terms, both sets of procedures involve the Reporting NZFI needing to obtain either:

- A valid self-certification that establishes the residence(s) for tax purposes of the account holder (or, in the case of Passive NFE/NFFE Account Holders, the status of the account holder and its Controlling Persons); or
- A reasonable explanation and documentation, as appropriate, supporting the validity of the original self-certification, and retaining a copy or a notation of such explanation and documentation.

Similar procedures also apply for both CRS and FATCA purposes **if** there is a change in circumstances that calls into question **documentary evidence** that the financial institution has relied on when carrying out due diligence. This involves obtaining valid documentary evidence from the account holder, or confirming the reasonableness of documentary evidence that has been obtained.

Self-Certification - verbal

The CRS allows a financial institution to gather verbally the information that is required to populate or otherwise obtain a self-certification. The CRS permits a Reporting NZFI to obtain a verbal self-certification from an account holder or Controlling Person, provided it contains all the required information (see for example, Commentary on CRS Section IV, paragraph 7 and example 8 at page

106 of the CRS Implementation Handbook); and that the self-certification is signed or positively affirmed by the person (or a person authorised to act on their behalf).

A self-certification is otherwise positively affirmed if the person making the self-certification provides the financial institution with an unambiguous acknowledgement that they agree with the representations made through the self-certification. In all cases, the positive affirmation is expected to be captured by the Reporting NZFI in a manner such that it can credibly demonstrate that the self-certification was positively affirmed (e.g. voice recording, digital footprint, etc.).

A Reporting NZFI, in obtaining the self-certification, is expected to be in a manner consistent with the procedures that it follows for the opening of the account and it must maintain a record of this process for audit purposes, in addition to the self-certification itself.

The same process for obtaining and recording the obtaining of a verbal self-certification for CRS purposes can be applied for obtaining a verbal self-certification under FATCA from an account holder or, in the case of accounts held by Passive NFEs, a Controlling Person.

Thresholds for Individual Accounts, Cash Value Insurance Contracts and Annuity Contracts

The FATCA IGA includes de minimus thresholds for:

- Pre-existing and new individual accounts (USD 50,000 threshold, for certain accounts); or
- Cash value insurance contracts or annuity contracts (USD 250,000 threshold).

These are not included in the CRS (refer to Section III(A) of the CRS, and Section II(A) of Annex I to the FATCA IGA). A policy decision was made to not to include these thresholds under the CRS.

A Reporting NZFI that wants to achieve a degree of alignment between FATCA and CRS due diligence can elect to disregard the thresholds for **FATCA due diligence purposes**.

However, the FATCA thresholds cannot be disregarded for FATCA reporting purposes (see section 185F(7) of the Tax Administration Act 1994). In other words, a Reporting NZFI is not permitted to elect to report information on these accounts or contracts that are under the FATCA thresholds for reporting.

Therefore, it is not possible to fully align the FATCA and CRS reporting regimes with respect to thresholds.

Thresholds for Pre-existing Entity Accounts

Under the CRS a pre-existing entity account becomes in scope for due diligence and (if reportable) reporting when the aggregate balance or value exceeds USD 250,000 (see Section V(A) of the CRS) either at 30 June 2017 or on a subsequent 31 March. However, a financial institution is able to

choose to elect out of this threshold (i.e. to choose to review and, if reportable, report every pre-existing entity account).

Under the FATCA IGA, a pre-existing entity account that has a balance or value of USD 250,000 or less as of 30 June 2014 is not required to be reviewed or reported unless its balance or value exceeds USD 1,000,000 as of any subsequent 31 March (see section IV(A) of Annex I to the FATCA IGA). A Reporting NZFI is able to elect out of this threshold for due diligence purposes, but not for reporting purposes (again, see section 185F(7)(c) of the Tax Administration Act 1994, which does not permit a Reporting NZFI to elect to **report** a Pre-existing Entity Account that falls under the FATCA threshold for reporting).

The CRS and FATCA IGA provide the same USD 250,000 threshold for initially excluding a pre-existing entity account from due diligence, but different thresholds when the previously excluded account becomes subject to due diligence (for example, USD 250,000 for CRS; and USD 1,000,000 for FATCA). The USD 250,000 threshold for the CRS reflects the general approach in the CRS to remove de minimis thresholds, while recognising the compliance costs associated with reviewing low-value entity accounts.

A Reporting NZFI can elect out of the threshold for CRS purposes. A financial institution is **also** able to elect out of this threshold for FATCA **due diligence** purposes. Therefore, a Reporting NZFI is able, through making such elections, to achieve a degree of alignment between its **due diligence** procedures for pre-existing entity accounts under both of these regimes.

However, as advised, for FATCA purposes a Reporting NZFI is not able to elect out of the **reporting** threshold, and report relevant amounts under the relevant thresholds. Therefore, complete alignment between the two regimes is not possible.

Tax Identification Numbers (TINs)

A relevant TIN, or functional equivalent, is required to be obtained and reported for both CRS and FATCA purposes.

Pre-existing accounts – TINs (or functional equivalents)

The CRS requires the collection and reporting of an account holder's (or, in the case of Passive NFE account holders, Controlling Person's) TIN for pre-existing accounts where such account holder (or Controlling Person), is a Reportable Person and the account is a Reportable Account. A Reporting NZFI that does **not** already have this information in their records is required to use reasonable efforts to obtain this TIN information by the end of the second reporting period following the period when the account is identified as being a Reportable Account.

The FATCA IGA requires the reporting of a TIN, or functional equivalent, for a reportable pre-existing account if the Reporting NZFI has this information in its records. For the 2017 and

subsequent periods, Reporting NZFIs will be required to obtain and report such TINs. In other words, they will be required to collect such TINs if they do not already have them in their records.

New accounts – TINs (or functional equivalents)

A TIN, or functional equivalent, is generally required to be collected for new accounts for CRS purposes when an account is held or controlled by a relevant foreign tax resident.

U.S. TIN information is also required to be collected for FATCA purposes.

Validity of documentary evidence

The general rules for validity of documentation under the CRS are that:

- Certain documents remain valid indefinitely (e.g. a passport or certification of incorporation);
- Documents with an expiry date are valid till the later of the expiry date or five years from the end of the fifth reporting period following the period when the documentary evidence is provided to the Financial Institution; and
- All other documents are valid until the last day of the fifth reporting period following the period in which the documentary evidence is provided to the Reporting NZFI.

See CRS Commentary on Section VIII at paragraph 155. The CRS contains a number of exceptions to the general rules that, in practice, are likely mean that they only apply in a limited number of cases.

While the FATCA IGA does not provide a period of validity for documentary evidence, a Reporting NZFI can align FATCA with CRS by adopting the CRS validity timeframes.

7 Definitions

Cash Value

The definition of “Cash Value” in Article 1(1)(z) of the FATCA IGA is different from the equivalent definition in Section VIII(C)(8) of the CRS.

The CRS definition of “Cash Value” excludes more amounts payable to the policyholder than the Cash Value definition in the FATCA IGA. This definition more closely aligns with that in the U.S FATCA Regulations.

Closer alignment between the CRS and FATCA can be achieved if a Reporting NZFI elects to use the U.S. FATCA Regulation’s definition of “Cash Value” in lieu of the FATCA IGA definition.

Cash Value Insurance Contract

The definition of “cash value insurance contract” in the FATCA IGA excludes insurance contracts with a cash value of USD 50,000 or lower (see Article 1(1)(y) of the FATCA IGA).

The CRS does not have this exclusion (see Section VIII(C)(7) of the CRS).

This difference is due to a policy decision taken when developing the CRS, and is in line with the fact that the CRS generally does not have de minimis exclusions.

Financial Asset

Only the CRS defines the term “financial asset”. The term “financial asset” is defined in the CRS (see CRS Section VIII(A)(7)) and is used in the CRS definitions of “investment entity” (see CRS Section VIII(A)(6)) and “Custodial Institution” (see CRS Section VIII(A)(4)).

However, Inland Revenue considers that the use of the CRS definition of “financial asset”, for both CRS and FATCA purposes, is consistent with the interpretation of Article 1(2) of the FATCA IGA because:

- The context in which the FATCA IGA was agreed (i.e. the definition of financial asset in the CRS is consistent with the current U.S. FATCA Regulations); and
- Both the CRS and FATCA regimes having been incorporated into New Zealand law.

Investment Entity

The definition of “investment entity” in CRS Section VIII(A)(6) differs from the FATCA “investment entity” definition in Article 1(1)(j) of the FATCA IGA – in terms of the “income” and “management” tests.

However, the CRS definition of “investment entity” is broadly similar to the investment entity definition in the FATCA U.S. Treasury Regulations.

An entity can broadly align its treatment about whether it is an investment entity under both CRS and FATCA by electing to use the U.S. Treasury Regulations definition of investment entity for FATCA purposes (as permitted by Article 4(7) of the FATCA IGA).

Where an entity makes such an election, it must notify any financial institution in which it holds any financial accounts that it has elected to use the U.S. Treasury Regulations’ definition of “investment entity” in lieu of the FATCA IGA definition.

Passive NFE

Under the CRS, the definition of a Passive NFE includes “managed investment entities” that are not resident in a Participating Jurisdiction (see CRS Section VIII(D)(8)).

The inclusion of these entities in the CRS definition of Passive NFE ensures transparency by requiring reporting on their Controlling Persons.

The inclusion of these entities does not exist under the FATCA IGA (see Section VI(B)(3) of Annex D).

Related Entity

Under the CRS, an entity is a “related entity” of another entity if:

- Either entity controls the other entity; or
- The two entities are under common control.

For this purpose, control includes direct or indirect ownership of more than 50% of the voting and value of such entity. Additionally, two Investment Entities, as defined in CRS Section VIII(A)(6)(b) can be related entities if they are under common management, and such management fulfils the due diligence obligations of such investment entities.

The definition of “related entity” in the FATCA IGA is different, in that:

- Control includes direct or indirect ownership of more than 50% of the vote “or” value in an Entity (the CRS requirements are conjunctive – “and”);
- The FATCA IGA permits New Zealand to treat an entity as not being a related entity if the two Entities are not members of the same expanded affiliated group, as defined in the U.S. Internal Revenue Code; and
- The FATCA IGA does not have the additional “common management test” for related investment entities.

Therefore, two separate approaches are required for FATCA and CRS purposes.

Appendix 2: Options permitted by the Common Reporting Standard

The CRS and Commentary contain a number of options that financial institutions can adopt when carrying out their CRS due diligence and reporting. This includes options that jurisdictions can take when deciding on the due diligence and reporting procedures that financial institutions are required to carry out.

The aim of such optionality is to provide financial institutions with some flexibility when carrying out such functions, so that they can make decisions that operationally may decrease their compliance costs. Jurisdictions can also take advantage of options that they consider will decrease compliance costs for financial institutions (with those options then becoming mandatory for such institutions).

Some of these options will be mandatory for Reporting NZFIs. For example:

- Reporting NZFIs will be required to adopt the wider approach to due diligence. In broad terms, this will involve Reporting NZFIs collecting all of the prescribed information about relevant foreign tax residents they have identified (and the account) irrespective of whether those persons are from Reportable Jurisdictions.¹¹⁴ It is anticipated that the wider approach to due diligence will decrease compliance costs for Reporting NZFIs because they will not need to redo their due diligence procedures every time New Zealand enters into a new AEOI exchange relationship with a particular jurisdiction.
- Reporting NZFIs will be required to use a 31 March reporting period. It is anticipated that this will decrease compliance costs for Reporting NZFIs by aligning with the FATCA and general tax periods.

However, Reporting NZFIs will be able to choose to adopt the following options (set out in the CRS and Commentary) when carrying out their CRS due diligence and reporting. Reporting NZFIs are not compelled to adopt any of these options. Therefore, Reporting NZFIs will be able to simply make such decisions taking into account what procedures are operationally more efficient for their business. Reporting NZFIs are not required to notify the Commissioner of any such decisions. However, they would be expected to retain a record of any such decisions made for audit purposes.

CRS due diligence options

- Alternative due diligence procedures: A Reporting NZFI will be able to:

¹¹⁴ However, there are some exceptions to this. A Reporting NZFI is required to use reasonable efforts to obtain the TINs and date of birth information with respect to pre-existing accounts by the end of the second reporting period following the period in which such accounts are identified as Reportable Accounts.

- Apply the due diligence procedures for new accounts to pre-existing accounts. The Reporting NZFI can carry out such an election either with respect to all pre-existing accounts or separately, with respect to any clearly identified group of such accounts.
- Use the residence address test (including the change in circumstances procedures) when carrying out due diligence on lower value pre-existing individual accounts. This is an alternative to the electronic records test.
- Apply the due diligence procedures for high-value pre-existing individual accounts to lower-value pre-existing individual accounts. The Reporting NZFI can carry out such an election either with respect to all pre-existing accounts or separately, with respect to any clearly identified group of such accounts.
- Choose to exclude from due diligence procedures pre-existing entity accounts with a balance or value of USD 250,000 or less as of 30 June 2017 or any subsequent 31 March.
- Choose to treat dollar threshold values in the CRS as being in New Zealand dollars. (For example, instead of treating the high-value pre-existing individual threshold as being USD 1,000,000, that threshold could be treated as being NZD 1,000,000 instead.)
- A Reporting NZFI that is carrying out pre-existing entity due diligence is able to use as documentary evidence any classification in its records with respect to the account that was determined based on a standard industry coding system (provided that various conditions set out on pages 203 to 204 of the CRS Commentary are met).
- Due diligence grace period: A Reporting NZFI will have the option of using the following grace periods when carrying out due diligence:
 - High-value pre-existing individual accounts:
 - Continuing to carry out due diligence beyond 31 March 2018 up until 30 June 2018 (provided that any account identified as reportable by 30 June 2018 is reported in the report for the period ended 31 March 2018 – i.e. reported by 30 June 2018).

- Other pre-existing accounts:
 - Continuing to carry out due diligence beyond 31 March 2019 up until 30 June 2019 (provided that any account identified as reportable by 30 June 2019 is reported in the report for the period ended 31 March 2019 – i.e. reported by 30 June 2019).

It is acknowledged that the option of utilising such grace periods could increase compliance costs for some Reporting NZFIs and pose operational difficulties. Such Reporting NZFIs are not compelled to adopt the option and could simply choose not to do so. A Reporting NZFI is also able to choose to merely utilise a portion of the grace period if it considers this would be efficient.

- Service providers: A Reporting NZFI is able to use a service provider to fulfil due diligence obligations. The Reporting NZFI remains responsible for fulfilling these requirements and the actions of the service provider are imputed to the NZFI. This is in line with FATCA.
- Trustee documented trust: A NZFI trust that has a financial institution trustee is able to use that trustee to carry out any due diligence on its behalf. The NZFI trust will (in such circumstances) be a Non-Reporting NZFI provided that the trustee reports all of the requisite information on the trust's behalf.
- Discretionary beneficiaries as “controlling persons”: The general rule in the CRS is that a discretionary beneficiary will be a Controlling Person of a passive NFE trust account holder. For example, if Bob is a discretionary beneficiary of a passive NFE trust account holder he will, therefore, be a controlling person of that trust (under this general rule). However, a Reporting NZFI is able to choose to treat a discretionary beneficiary as being a controlling person of a passive NFE trust only if they receive a distribution in the period. For example, the Reporting NZFI could decide to treat Bob as only being a controlling person in a period *if* he receives a distribution in that period. If a Reporting NZFI chooses to adopt this option they will need to have reasonable safeguards and procedures in place to identify whether a distribution has been made to the beneficiary (Bob in this example). It is acknowledged that this option could actually increase compliance costs for some Reporting NZFIs and pose operational difficulties. Such Reporting NZFIs are not compelled to adopt the option and could simply choose not to do so.

CRS reporting options

- Option to adopt the “wider approach” to reporting: A Reporting NZFI is able to choose to report all relevant foreign tax residents that they have identified, as opposed to merely reporting those foreign tax residents from Reportable Jurisdictions. Inland Revenue will then sort the relevant information and exchange the information with the relevant Reportable Jurisdictions.
- Service Providers: A Reporting NZFI is able to use a service provider to fulfil reporting obligations. The Reporting NZFI remains responsible for fulfilling these requirements and the actions of the service provider are imputed to the NZFI. This is in line with FATCA.
- Trustee documented trust: A NZFI trust that has a financial institution trustee is able to use that trustee to carry out any reporting on their behalf. The NZFI trust will (in such circumstances) be a Non-Reporting NZFI provided that the trustee reports all of the requisite information on the trust’s behalf.
- Option to submit nil reports: A Reporting NZFI that has no accounts to report in a particular period will have the option of submitting a nil report for that period. However, Reporting NZFIs are not compelled to submit nil reports.

Options in the OECD handbook and OECD answers to “Frequently Asked Questions”

A Reporting NZFI is also able to adopt any options set out in other background documents and materials such as the OECD handbook and OECD answer to “Frequently Asked Questions” to the extent that such options are consistent with the CRS.

Appendix 3: Documentary evidence under the CRS

Reporting NZFIs are sometimes able to rely (in part) on documentary evidence when carrying out CRS due diligence.

“Documentary evidence” is defined in the CRS (see page 209 at paragraph 8 of the CRS Commentary and subparagraph E(6) of Section VIII of the CRS) for these purposes as including any of the following:

- A certificate of residence issued by an authorised government body (for example, a government or agency thereof, or a municipality) of the jurisdiction in which the payee claims to be a resident. Examples of such a certificate include a certificate of residence for tax purposes indicating that the account holder has filed its most recent income tax return; residence information published by an authorised government body of that jurisdiction such as a list published by a tax administration that includes the names and residences of taxpayers, and residence information in a publicly accessible register maintained or authorised by an authorised government body of a jurisdiction, such as a public register maintained by a tax administration.
- With respect to an individual, any valid identification issued by an authorised government body (for example, a government or agency thereof, or a municipality), that includes the individual’s name and is typically used for identification purposes.
- With respect to an entity, any official documentation issued by an authorised government body (for example, a government or agency thereof, or a municipality) that includes the name of the Entity and whether the address of its principal office in the jurisdiction in which it claims to be a resident or the jurisdiction in which the entity was incorporated or organised. The address of the principal office will generally be where its place of effective management is situated. The address of a Financial Institution with which the entity maintains an account, a post office box or an address used solely for mailing purposes is not an address of the Entity’s principal office unless it is the only address used by the Entity and appears as its registered address in its organisational documents. Further, an address that is provided subject to instructions to hold all mail to that address is not the address of the Entity’s principal office.

- Any audited statement, third-party credit report, bankruptcy filing or securities regulator's report.

Appendix 4: Definitions of “Non-Financial Entity”, “active Non-Financial Entity”, “Passive income”, and “Passive Non-Financial Entity”

An “NFE” is defined in Section VIII(D)(7) of the CRS as meaning:

“any Entity that is not a Financial Institution”.

“Active NFE” is defined in Section VIII(D)(8) of the CRS as meaning:

“any NFE that meets any of the following criteria:

- a) less than 50% of the NFE’s gross income for the preceding calendar year or other appropriate reporting period is passive income and less than 50% of the assets held by the NFE during the preceding calendar year or other appropriate reporting period are assets that produce or are held for the production of passive income;
- b) the stock of the NFE is regularly traded on an established securities market or the NFE is a related entity of an Entity the stock of which is regularly traded on an established securities market;
- c) the NFE is a Governmental Entity, an international organisation, a Central bank, or an Entity wholly owned by one or more of the foregoing;
- d) substantially all of the activities of the NFE consist of holding (in whole or in part) the outstanding stock of, or providing financing and services to, one or more subsidiaries that engage in trades or businesses other than the business of a Financial Institution, except that an Entity does not qualify for this status if the Entity functions (or holds itself out) as an investment fund, such as a private equity fund, venture capital fund, leveraged buyout fund, or any investment vehicle whose purpose is to acquire or fund companies and then hold interests in those companies as capital assets for investment purposes;
- e) the NFE is not yet operating a business and has no prior operating history, but is investing capital into assets with the intent to operate a business other than that of a Financial Institution, provided that the NFE does not qualify for this exception after the date that is 24 months after the date of the initial organisation of the NFE;

- f) the NFE was not a Financial Institution in the past five years, and is in the process of liquidating its assets or is reorganising with the intent to continue or recommence operations in a business other than that of a Financial Institution;
- g) the NFE primarily engages in financing and hedging transactions with, or for, Related Entities that are not Financial Institutions, and does not provide financing or hedging services to any Entity that is not a Related Entity, provided that the group of any such Related Entities is primarily engaged in a business other than that of a Financial Institution; or
- h) the NFE meets all of the following requirements:
 - (i). it is established and operated in its jurisdiction of residence exclusively for religious, charitable, scientific, artistic, cultural, athletic or educational purposes; or it is established and operated in its jurisdiction of residence and it is a professional organisation, business league, chamber of commerce, labour organisation, agricultural or horticultural organisation, civic league or an organisation operated exclusively for the promotion of social welfare;
 - (ii). it is exempt from income tax in its jurisdiction of residence;
 - (iii). it has no shareholders or members who have a proprietary or beneficial interest in its income or assets;
 - (iv). the applicable laws of the NFE's jurisdiction of residence or the NFE's formation documents do not permit any income or assets of the NFE to be distributed to, or applied for the benefit of, a private person or liquidation or dissolution, all of its assets be distributed to a Governmental Entity or other non-profit organisation, or escheat to non-charitable Entity other than pursuant to the conduct of the NFE's charitable activities, or as payment of reasonable compensation for services rendered, or as payment representing the fair market value of property which the NFE has purchased; and

- (v). the applicable laws of the NFE's jurisdiction of residence or the NFE's formation documents require that, upon the NFE's the government of the NFE's jurisdiction of residence or any political subdivision thereof.

“Passive income” is defined for CRS purposes in section 3(1) of the Tax Administration Act 1994 as meaning:

“in the application of the CRS applied standard to a person or entity for a period,....an amount that is not income from a transaction entered into in the ordinary course of the business of a dealer in financial assets and that is—

- a) a dividend:
- b) interest:
- c) income equivalent to interest:
- d) rent or a royalty, other than rent or a royalty derived in the active conduct of a business conducted, partly or wholly, by employees of the person or entity:
- e) an annuity:
- f) for financial assets that give rise to amounts included under paragraphs (a) to (e), the amount by which gains from the sales or exchanges of the financial assets in the period exceed losses from the sales or exchanges:
- g) the amount by which gains from the transactions in financial assets in the period exceed losses from the transactions:
- h) the amount by which gains from the foreign currency transactions in the period exceed losses from the transactions:
- i) the amount by which gains from the swaps in the period exceed losses from the swaps:
- j) an amount received under a cash value insurance contract.

“Passive NFE” is defined in Section VIII(D)(8) of the CRS with reference to subparagraph A(6)(b) of the CRS. For the purposes of this guidance, the definition of “Passive NFE” means any:

- (i). NFE that is not an Active NFE; or
- (ii). A managed investment entity from a jurisdiction that is not a Participating Jurisdiction.

Appendix 5: Definition of “Excluded Account”

Section VIII of the CRS provides relevant definitions. Section VIII.C17 defines an “Excluded Account” as:

17. The term “**Excluded Account**” means any of the following accounts:

- a) a retirement or pension account that satisfies the following requirements:
 - (i). the account is subject to regulation as a personal retirement account or is part of a registered or regulated retirement or pension plan for the provision of retirement or pension benefits (including disability or death benefits);
 - (ii). the account is tax-favoured (i.e. contributions to the account that would otherwise be subject to tax are deductible or excluded from the gross income of the account holder or taxed at a reduced rate, or taxation of investment income from the account is deferred or taxed at a reduced rate);
 - (iii). information reporting is required to the tax authorities with respect to the account;
 - (iv). withdrawals are conditioned on reaching a specified retirement age, disability, or death, or penalties apply to withdrawals made before such specified events; and
 - (v). either (i) annual contributions are limited to USD50,000 or less, or (ii) there is a maximum lifetime contribution limit to the account of USD1,000,000 or less, in each case applying the rules set forth in paragraph C of Section VII for account aggregation and currency translation.

A Financial Account that otherwise satisfies the requirement of subparagraph C(17)(a)(v) will not fail to satisfy such requirement solely because such Financial Account may receive assets or funds transferred from one or more Financial Accounts that meet the requirements of subparagraph C(17)(a) or (b), or from one or more retirement or pension

funds that meet the requirements of any of subparagraphs B(5) through (7).

- b) an account that satisfies the following requirements:
 - (i). the account is subject to regulation as an investment vehicle for purposes other than for retirement and is regularly traded on an established securities market, or the account is subject to regulation as a savings vehicle for purposes other than for retirement;
 - (ii). the account is tax-favoured (i.e. contributions to the account that would otherwise be subject to tax are deductible or excluded from the gross income of the account holder or taxed at a reduced rate, or taxation of investment income from the account is deferred or taxed at a reduced rate);
 - (iii). withdrawals are conditioned on meeting specific criteria related to the purpose of the investment or savings account (for example, the provision of educational or medical benefits), or penalties apply to withdrawals made before such criteria are met; and
 - (iv). annual contributions are limited to USD50,000 or less, applying the rules set forth in paragraph C of Section VII for account aggregation and currency translation.

A Financial Account that otherwise satisfies the requirement of subparagraph C(17)(b)(iv) will not fail to satisfy such requirement solely because such Financial Account may receive assets or funds transferred from one or more Financial Accounts that meet the requirements of subparagraph C(17)(a) or (b) or from one or more retirement or pension funds that meet the requirements of any of subparagraphs B(5) through (7).

- c) a life insurance contract with a coverage period that will end before the insured individual attains age 90, provided that the contract satisfies the following requirements:
 - (i). periodic premiums, which do not decrease over time, are payable at least annually during the period the contract is in existence or until the insured attains age 90, whichever is shorter;

- (ii). the contract has no contract value that any person can access (by withdrawal, loan, or otherwise) without terminating the contract;
 - (iii). the amount (other than a death benefit) payable upon cancellation or termination of the contract cannot exceed the aggregate premiums paid for the contract, less the sum of mortality, morbidity, and expense charges (whether or not actually imposed) for the period or periods of the contract's existence and any amounts paid prior to the cancellation or termination of the contract; and
 - (iv). the contract is not held by a transferee for value.
- d) an account that is held solely by an estate if the documentation for such account includes a copy of the deceased's will or death certificate.
- e) an account established in connection with any of the following:
 - (i). a court order or judgment.
 - (ii). a sale, exchange, or lease of real or personal property, provided that the account satisfies the following requirements:
 - (i). the account is funded solely with a down payment, earnest money, deposit in an amount appropriate to secure an obligation directly related to the transaction, or a similar payment, or is funded with a Financial Asset that is deposited in the account in connection with the sale, exchange, or lease of the property;
 - (ii). the account is established and used solely to secure the obligation of the purchaser to pay the purchase price for the property, the seller to pay any contingent liability, or the lessor or lessee to pay for any damages relating to the leased property as agreed under the lease;
 - (iii). the assets of the account, including the income earned thereon, will be paid or otherwise distributed for the benefit of the purchaser, seller, lessor, or lessee (including to satisfy

such person's obligation) when the property is sold, exchanged, or surrendered, or the lease terminates;

- (iv). the account is not a margin or similar account established in connection with a sale or exchange of a Financial Asset; and
 - (v). the account is not associated with an account described in subparagraph C(17)(f).
- (iii). an obligation of a Financial Institution servicing a loan secured by real property to set aside a portion of a payment solely to facilitate the payment of taxes or insurance related to the real property at a later time.
- (iv). an obligation of a Financial Institution solely to facilitate the payment of taxes at a later time.
- f) a Depository Account that satisfies the following requirements:
- (i). the account exists solely because a customer makes a payment in excess of a balance due with respect to a credit card or other revolving credit facility and the overpayment is not immediately returned to the customer; and
 - (ii). beginning on or before 1 July 2017, the Financial Institution implements policies and procedures either to prevent a customer from making an overpayment in excess of USD50,000, or to ensure that any customer overpayment in excess of USD50,000 is refunded to the customer within 60 days, in each case applying the rules set forth in paragraph C of Section VII for currency translation. For this purpose, a customer overpayment does not refer to credit balances to the extent of disputed charges but does include credit balances resulting from merchandise returns.
- g) any other account that presents a low risk of being used to evade tax, has substantially similar characteristics to any of the accounts described in subparagraphs C(17)(a) through (f), and is defined in domestic law as an Excluded Account, provided that the status of such account as an Excluded Account does not frustrate the purposes of the Common Reporting Standard.

Appendix 6: Definition of “Non-Reporting Financial Institution”

Section VIII of the CRS provides relevant definitions. Section VIII.B(1) defines a “Non-Reporting Financial Institution” as:

1. The term “**Non-Reporting Financial Institution**” means any Financial Institution that is:
 - a) a Governmental Entity, International Organisation or Central Bank, other than with respect to a payment that is derived from an obligation held in connection with a commercial financial activity of a type engaged in by a Specified Insurance Company, Custodial Institution, or Depository Institution;
 - b) a Broad Participation Retirement Fund; a Narrow Participation Retirement Fund; a Pension Fund of a Governmental Entity, International Organisation or Central Bank; or a Qualified Credit Card Issuer;
 - c) any other Entity that presents a low risk of being used to evade tax, has substantially similar characteristics to any of the Entities described in subparagraphs B(1)(a) and (b), and is defined in domestic law as a Non-Reporting Financial Institution, provided that the status of such Entity as a Non-Reporting Financial Institution does not frustrate the purposes of the Common Reporting Standard;
 - d) an Exempt Collective Investment Vehicle; or
 - e) a trust to the extent that the trustee of the trust is a Reporting Financial Institution and reports all information required to be reported pursuant to Section I with respect to all Reportable Accounts of the trust.

Appendix 7: Requirements to be satisfied to be a “Non-Reporting Financial Entity” under the Common Reporting Standard

Section VIII(B)(2)-(9) of the CRS provides the following detail about some of these types of “Non-Reporting Financial Institutions”:

2. The term “**Governmental Entity**” means the government of a jurisdiction, any political subdivision of a jurisdiction (which, for the avoidance of doubt, includes a state, province, county, or municipality), or any wholly owned agency or instrumentality of a jurisdiction or of any one or more of the foregoing (each, a “Governmental Entity”). This category is comprised of the integral parts, controlled entities, and political subdivisions of a jurisdiction.
 - a) An “integral part” of a jurisdiction means any person, organisation, agency, bureau, fund, instrumentality, or other body, however designated, that constitutes a governing authority of a jurisdiction. The net earnings of the governing authority must be credited to its own account or to other accounts of the jurisdiction, with no portion inuring to the benefit of any private person. An integral part does not include any individual who is a sovereign, official, or administrator acting in a private or personal capacity.
 - b) A controlled entity means an Entity that is separate in form from the jurisdiction or that otherwise constitutes a separate juridical entity, provided that:
 - (i). the Entity is wholly owned and controlled by one or more Governmental Entities directly or through one or more controlled entities;
 - (ii). the Entity’s net earnings are credited to its own account or to the accounts of one or more Governmental Entities, with no portion of its income inuring to the benefit of any private person; and
 - (iii). the Entity’s assets vest in one or more Governmental Entities upon dissolution.
 - c) Income does not inure to the benefit of private persons if such persons are the intended beneficiaries of a governmental programme, and the programme activities are performed for the general public with respect to the common welfare or relate to the administration of some phase of government. Notwithstanding the foregoing, however, income is considered to inure to the benefit of private persons if the income is derived from the use of a governmental entity to conduct a commercial business, such as a commercial banking business, that provides financial services to private persons.

3. The term “**International Organisation**” means any international organisation or wholly owned agency or instrumentality thereof. This category includes any intergovernmental organisation (including a supranational organisation) (1) that is comprised primarily of governments; (2) that has in effect a headquarters or substantially similar agreement with the jurisdiction; and (3) the income of which does not inure to the benefit of private persons.
4. The term “**Central Bank**” means an institution that is by law or government sanction the principal authority, other than the government of the jurisdiction itself, issuing instruments intended to circulate as currency. Such an institution may include an instrumentality that is separate from the government of the jurisdiction, whether or not owned in whole or in part by the jurisdiction.
5. The term “**Broad Participation Retirement Fund**” means a fund established to provide retirement, disability, or death benefits, or any combination thereof, to beneficiaries that are current or former employees (or persons designated by such employees) of one or more employers in consideration for services rendered, provided that the fund:
 - a) does not have a single beneficiary with a right to more than five per cent of the fund’s assets;
 - b) is subject to government regulation and provides information reporting to the tax authorities; and
 - c) satisfies at least one of the following requirements:
 - (i). the fund is generally exempt from tax on investment income, or taxation of such income is deferred or taxed at a reduced rate, due to its status as a retirement or pension plan;
 - (ii). the fund receives at least 50% of its total contributions (other than transfers of assets from other plans described in subparagraphs B(5) through (7) or from retirement and pension accounts described in subparagraph C(17)(a)) from the sponsoring employers;
 - (iii). distributions or withdrawals from the fund are allowed only upon the occurrence of specified events related to retirement, disability, or death (except rollover distributions to other retirement funds described in subparagraphs B(5) through (7) or retirement and pension accounts described in subparagraph C(17)(a)), or penalties apply to distributions or withdrawals made before such specified events; or

- (iv). contributions (other than certain permitted make-up contributions) by employees to the fund are limited by reference to earned income of the employee or may not exceed USD50,000 annually, applying the rules set forth in paragraph C of Section VII for account aggregation and currency translation.
6. The term “**Narrow Participation Retirement Fund**” means a fund established to provide retirement, disability, or death benefits to beneficiaries that are current or former employees (or persons designated by such employees) of one or more employers in consideration for services rendered, provided that:
- a) the fund has fewer than 50 participants;
 - b) the fund is sponsored by one or more employers that are not Investment Entities or Passive NFEs;
 - c) the employee and employer contributions to the fund (other than transfers of assets from retirement and pension accounts described in subparagraph C(17)(a)) are limited by reference to earned income and compensation of the employee, respectively;
 - d) participants that are not residents of the jurisdiction in which the fund is established are not entitled to more than 20% of the fund’s assets; and
 - e) the fund is subject to government regulation and provides information reporting to the tax authorities.
7. The term “**Pension Fund of a Governmental Entity, International Organisation or Central Bank**” means a fund established by a Governmental Entity, International Organisation or Central Bank to provide retirement, disability, or death benefits to beneficiaries or participants that are current or former employees (or persons designated by such employees), or that are not current or former employees, if the benefits provided to such beneficiaries or participants are in consideration of personal services performed for the Governmental Entity, International Organisation or Central Bank.
8. The term “**Qualified Credit Card Issuer**” means a Financial Institution satisfying the following requirements:
- a) the Financial Institution is a Financial Institution solely because it is an issuer of credit cards that accepts deposits only when a customer makes a payment in excess of a balance due with respect to the card and the overpayment is not immediately returned to the customer; and
 - b) beginning on or before 1 July 2017, the Financial Institution implements policies and procedures either to prevent a customer from making an overpayment in excess of USD50,000, or to ensure that any customer overpayment in excess of

USD50,000 is refunded to the customer within 60 days, in each case applying the rules set forth in paragraph C of Section VII for account aggregation and currency translation. For this purpose, a customer overpayment does not refer to credit balances to the extent of disputed charges but does include credit balances resulting from merchandise returns.

9. The term **“Exempt Collective Investment Vehicle”** means an Investment Entity that is regulated as a collective investment vehicle, provided that all of the interests in the collective investment vehicle are held by or through individuals or Entities that are not Reportable Persons, except a Passive NFE with Controlling Persons who are Reportable Persons.

An Investment Entity that is regulated as a collective investment vehicle does not fail to qualify under subparagraph B(9) as an Exempt Collective Investment Vehicle, solely because the collective investment vehicle has issued physical shares in bearer form, provided that:

- a) the collective investment vehicle has not issued, and does not issue, any physical shares in bearer form after 30 June 2017;
- b) the collective investment vehicle retires all such shares upon surrender;
- c) the collective investment vehicle performs the due diligence procedures set forth in Sections II through VII and reports any information required to be reported with respect to any such shares when such shares are presented for redemption or other payment; and
- d) the collective investment vehicle has in place policies and procedures to ensure that such shares are redeemed or immobilised as soon as possible, and in any event prior to 30 June 2018.