White Paper

Tax Evasion: Power FATCA/CRS Compliance with AML Technology
The continued global focus on the issue of tax evasion means the perpetual quest for regulatory compliance has never been more complex or time consuming. As organizations comply with the U.S. Foreign Account Tax Compliance Act (FATCA), and look forward to reciprocal legislation in other jurisdictions, many recognize the similarities between the processes and technologies required to meet tax evasion regulatory compliance and anti-money laundering (AML) regulatory requirements. Understanding these similarities and supporting technologies enables synergies that drive technology, resource cost savings and more efficient operational practices. Accordingly, many organizations consider integrating tax evasion compliance into their existing AML infrastructure.

Established in 2010, under FATCA, the U.S. IRS requires individuals report their financial accounts held overseas and foreign financial institutions report information about financial accounts held by U.S. taxpayers. This legislation, which seeks to combat offshore tax evasion and recover federal tax, has become a global issue. Countries around the world have agreed on bilateral exchanges of tax information using the Common Reporting Standard (CRS). With this move, many organizations are reviewing the current compliance procedures and reassessing the tools and technologies used for compliance.

Most organizations have put together project teams comprised of tax, legal, compliance and operations experts to minimize the cost, impact and risk of the FATCA and CRS regulatory imperatives. These teams have found that a comprehensive AML framework provides a broad set of capabilities to orchestrate, execute and manage a FATCA/CRS program—and more broadly, a comprehensive tax evasion program.

**Similarities: Tax Evasion and AML Compliance**

Tax and money laundering violations are closely related. In the world’s most effectively regulated jurisdictions, tax evasion is often treated as a predicate to money laundering. In addition, the recommendations from the Financial Action Task Force on Money laundering (FATF) on AML explicitly include tax crimes and the fourth EU AML Directive sees tax evasion as a predicate offence.

AML and FATCA/CRS compliance have a lot in common. Both are based on a strong know your customer (KYC) culture and customer due diligence policies. These are essential for the detection of any irregularities around AML or FATCA/CRS. And even though FATCA/CRS focuses more on static data (for example U.S. indicia), both share the importance of knowing and understanding beneficiary ownership information.
For both the onboarding KYC checks and the ongoing due diligence, monitoring is essential. The level of due diligence required is based on the risk of tax evasion and money laundering. Furthermore, both regulations share KYC data storage requirements and involve the same personnel, such as the compliance team, investigators and front-office employees. For the purpose of both, with solid technology, the same tools can be used for both tax evasion regulatory compliance and AML monitoring and reporting.

**Differences to Consider**

Although the high-level detection and investigation process is largely comparable between AML and FATCA/CRS, the fundamental questions being asked are different. To detect abnormal or suspicious activity, AML solutions and processes use parameters and characteristics relevant for behavioral monitoring for suspicious transactions and activity. In other words, an AML solution asks, “What are you doing and is this normal behavior for you?” FATCA/CRS, on the other hand, is really more about identifying the right people whose accounts must be reported to the regulatory bodies from the start.

Another difference is regulatory reporting. FATCA/CRS-related reporting is done on an annual basis, while AML reporting, such as filing suspicious transaction or activity reports, must be done on a case-by-case basis.

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**Adding tax evasion compliance to an AML infrastructure empowers financial institutions to derive significant cost savings by:**

- Leveraging the existing AML processes with tax evasion compliance based on legislation such as FATCA/CRS
- Integrating tax evasion compliance procedures into existing client onboarding and review procedures
- Storing KYC data for tax evasion compliance in the existing AML data storage capabilities
- Conducting monitoring using one tool on the same platform
- Consolidating data sets and running rules on the same server
- Using AML teams for tax evasion compliance

**Overcoming regulatory challenges around tax evasion**

When FATCA was initially established, financial institutions were concerned about customer resistance and potentially jeopardizing customer relationships. Also, meeting implementation and reporting deadlines remain key challenges for many financial institutions. Regulatory complexity continues to grow with the global focus on the issue of tax evasion. In addition to U.S. FATCA, there are now various European and global (G20) rules around automatic exchange of tax information between jurisdictions, including, the common reporting standard (CRS) issued by the Organisation for Economic Co-operation and Development (OECD). Another uniformly shared challenge is the cost to implement the systems and processes required to comply with these rules.
Financial institutions face complex and costly implementation programs, and are in need of efficient implementation processes, and future-proof, systemic technology solutions. CRS and OECD standards represent a significant set of new requirements for global data collection and information reporting. To overcome these challenges and to meet these mandates, financial institutions need solid yet efficient processes and technology.

**Act Now**

Although complying with the increasingly global tax evasion requirements may seem daunting, financial institutions can leverage technology already at their fingertips—their AML solution. Adding tax evasion compliance capabilities to an existing AML infrastructure empowers financial institutions to derive significant cost savings. For example, tax evasion compliance procedures can be easily integrated into existing client onboarding and review procedures and KYC data for tax evasion compliance can be housed in existing AML data storage facilities. Monitoring for both money laundering activity and indicators of tax evasion can be performed using a single tool on the same technology platform and data sets can be consolidated and rules can be run on the same server. Finally, AML resources, such as investigators, can be cross-trained to also handle tax evasion compliance.

Organizations must recognize and understand the relevant due diligence and reporting requirements and identify the right technological solutions that are robust, flexible and future-proof.
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