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**Subject:**

**THE OECD HAS PUBLISHED THE STANDARD FOR AUTOMATIC EXCHANGE OF FINANCIAL ACCOUNT INFORMATION IN TAX MATTERS**

With globalization, technological advances and elimination of limitations on foreign exchange capital and money movements have significantly accelerated, and countries have become increasingly powerless to keep track of their citizens' capital and money movements. A significant amount of monetary assets has been transferred to countries which are considered tax havens, especially owing to certain tax advantages they offer. A part of the income acquired from investments made in countries other than tax havens is also not known by these countries. Consequently, countries demand financial information about their own citizens from countries which are party to tax treaties on exchange of information in tax matters, so that they can determine and tax the assets and revenues of their own citizens. Article 26 of the OECD Model Tax Agreement allows a wide range of information to be exchanged and does not introduce any limitation to the manner or conditions of information exchange. Pursuant to the model agreement, information exchange can be realized in three ways, namely, upon demand, automatically or simultaneously.

- **Upon Demand:** The party to the agreement demands certain information about a taxpayer from another country.
- **Automatic:** Certain information about the taxpayer is sent systematically.
- **Simultaneous:** Information considered to be relevant to the other country is sent to that country.

Apart from the aforementioned ways, tax inspectors of one country may visit the other countries and inspect the records relating to that particular tax-liable person or entity, or a simultaneous tax inspection of the taxpayer may be carried out mutually in both of the countries, or sectoral information may be exchanged.

The aforementioned information exchange methods are carried out pursuant to international correspondence and good faith rules. However, criticism has arisen to the effect that access to demanded information is not quick enough. Furthermore, administrations of the country demanding the information may have doubts as to the reliability of the information acquired.

On April 9, 2013, the Ministers of Finance of 5 European countries (France, Germany, Italy, Spain and the UK) have stated that they request signature of an agreement among them similar to the FATCA (Foreign Account Tax Compliance Act) concluded with the USA. More than 60 countries, including

Turkey, have supported this demand and voiced their opinions that a global standard relating to automatic information exchange should be created. As a result of all such developments, in the OECD Ministers meeting held in Paris on September 6-7, 2013, it was decided to standardize financial information exchange using an annual automatic format, and the **Standard for Automatic Exchange of Financial Information in Tax Matters** relating to the automatic exchange of information in question was published on July 21, 2014.

65 states, primarily the G-20 countries, have agreed on a leading decision to implement those standards. These are: Andorra, Anguilla, Argentina, Australia, Austria, Belgium, Bermuda, Brazil, British Virgin Islands, Bulgaria, Canada, Cayman Islands, Chile, China, Colombia, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Faroe Islands, Finland, France, Germany, Greece, Hungary, Iceland, India, Gibraltar, Indonesia, Ireland, Isle of Man, Israel, Italy, Japan, Jersey, South Korea, Latvia, Liechtenstein, Lithuania, Luxembourg, Malaysia, Malta, Mexico, Montserrat, Holland, New Zealand, Norway, Poland, Portugal, Romania, Russia, Saudi Arabia, Singapore, Slovakia, South Africa, Spain, Sweden, Switzerland, Turkey, Turks & Caicos Islands, UK, USA and the European Union. The number of countries that will adopt the automatic exchange of information is expected to reach 120 after the “Global Forum on Transparency and Exchange of Information for Tax Purposes” to be held in October this year.

The **Standards for Automatic Exchange of Financial Information in Tax Matters** comprise 3 sections and 7 appendices.

Section 1: Introduction

Section 2: “The Text of the Model Competent Authority Agreement (Model CAA) and the CRS”

Section 3: “The Commentaries on the Model CAA and the CRS”

“CRS” (Common Reporting Standards) refers to determination of the financial assets and revenues existing on the date decided for the financial institutions to carry out reporting and information Exchange (due diligence rules) and standards for reporting thereof.

“CAA” are “Commentaries on the Model Competent Authority Agreement” and refer to standards by which detailed rules on information exchange are provided.

Pursuant to the global standards in question, for instance, the financial information of real or legal persons resident in country A’s financial institutions shall be automatically sent to the administration of country A on an annual basis. The financial information in question covers “acquired income” and “financial assets,” which are detailed below.

Within the framework of the Common Reporting Standards, financial institutions shall automatically report the **interests, dividends, revenues from certain insurance policies, similar income, as well as sales revenues from sale of financial assets and bank accounts** that are called investment revenues acquired by real or legal persons resident in one country to the country in question.

**Institutions, which will report such financial information may be cited as, banks, custodians and brokers, certain insurance companies and other financial institutions such as mutual funds.**

The standards published by the OECD shall be presented at the meeting of the Ministers of Finance of the G-20 countries in September this year.

Later the section of the standards relating to Reporting and Determining of Financial Assets shall be harmonized with the legislation of countries to implement such standards; thus, the fundamental legal infrastructure on information exchange shall be determined. In the meantime, the administrative and information processing infrastructures required for automatic information exchange shall be set up, and measures to ensure data safety shall be undertaken. After all the aforementioned steps are taken, countries shall begin to exchange information within the framework of the standards.

However, we would like to inform you that the following countries have announced that they will start implementing the standards in question as of 2017.

Argentina, Belgium, Bulgaria, Colombia, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Faroe Islands, Finland, France, Germany, Greece, Hungary, Iceland, India, Ireland, Italy, Lithuania, Liechtenstein, Latvia, Malta, Mexico, Holland, Norway, Poland, Portugal, Romania, Slovakia, South Africa, Spain, Sweden, UK, Isle of Man, Guernsey and Jersey, Anguilla, Bermuda, British Virgin Islands, Cayman islands, Gibraltar, Montserrat and Turks & Caicos.

Best Regards,

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