ASIAN PRIVATE BANKER

Client Tax Reporting **2019**

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ASIAN PRIVATE BANKER
Client Tax Reporting 2019

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Foreword

In August 2018, *Asian Private Banker* and BearingPoint launched a research project seeking to explore the challenging topic of client tax reporting in Asia's private banking and wealth management industry. Following four months of research, data collection and in-depth analysis, I am delighted to present to you our report that offers the most innovative and comprehensive study on the client tax reporting services of private banks and wealth managers in Asia.

I would like to take this opportunity to thank BearingPoint, our exclusive sponsor, for its support and insights. *Asian Private Banker* would also like to thank all those who contributed to the research project for their assistance during the data collection process.

With best wishes,

Stratos Pourzitakis, PhD
Head of Research, Asian Private Banker

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Executive Summary

A tightening regulatory climate and increased tax transparency with the introduction of the AEOI/CRS are levelling the global playing field and making private wealth management hubs more competitive, presenting Hong Kong and Singapore with an opportunity to attract offshore clients.

While client tax reporting services are generally not a core function of financial institutions, the demand for such services has increased as clients seek to mitigate regulatory risks. Overall, 65% of our sample population have noticed a rising interest from their clients in client tax reporting services over the past two years and 97% predicted that interest will increase over the next three years.

Two-thirds (66%) of the institutions that participated in our survey reported that they plan to increase investment in additional client tax reporting services over the next 12 months based on client demand, highlighting how important it is for firms to increase their client tax reporting capabilities. Most institutions are planning to increase investment in both in-house tools and external providers.

The top three markets that institutions receive requests in creating tax reports for are Mainland China, Indonesia and Europe. Proximity and cultural ties are key factors in determining where investors seek their offshore financial services, thus Hong Kong and Singapore are well-located offshore hubs in a region that leads the world in wealth creation.

While financial institutions' familiarity with AEOI/CRS is good (average: 7.6 out of 10), their familiarity with creating client tax reports is significantly lower (average: 6.9 out of 10). This emphasises the need for more training, as currently only 33% of firms offer training specifically on client tax reporting.

1. Introduction and Scope of the Research

Asia-Pacific is the world's fastest-growing market for private financial wealth. In 2017, personal wealth grew by 19% to US$36.6 trillion — residents of Mainland China comprised 57% of that total — and by 2020, private wealth could total US$59.8 trillion, surpassing Western Europe and trailing only North America, according to recent research.[1]

In parallel, recent regulatory developments — including the introduction of the Common Reporting Standard (CRS) and the Automatic Exchange of Information (AEOI) — have created significant challenges and opportunities in private banking markets, and Asia stands to both gain and lose from these changes. The unique characteristics of each jurisdiction in the region mean governments and companies have divergent outlooks on their own economy and local tax environment. The consensus is that change is coming, but what will change and how?

Asian Private Banker, sponsored by BearingPoint, conducted an in-depth study on the client tax reporting of private banks and, in particular, it explored the impact of existing and future regulatory initiatives, the different approaches and strategies adopted by private banks, as well as changes in the services they offer to Asia's HNWIs/UHNWIs.

To this end, this report will address the following issues:

1. What is the impact of client tax reporting on private banks' offered services?
2. How do private banks offer and structure their client tax reporting services?
3. What are their sourcing policies for client tax reporting solutions (in-house/third-party solutions) and what is their relationship to client tax reporting solution providers?
4. What are private banks' and end-clients' preferences and concerns around client tax reporting?

[1] Brent Beardsley et al. "Global Wealth 2018: Seizing the Analytics Advantage", Boston Consulting Group, 2018: 11-12.

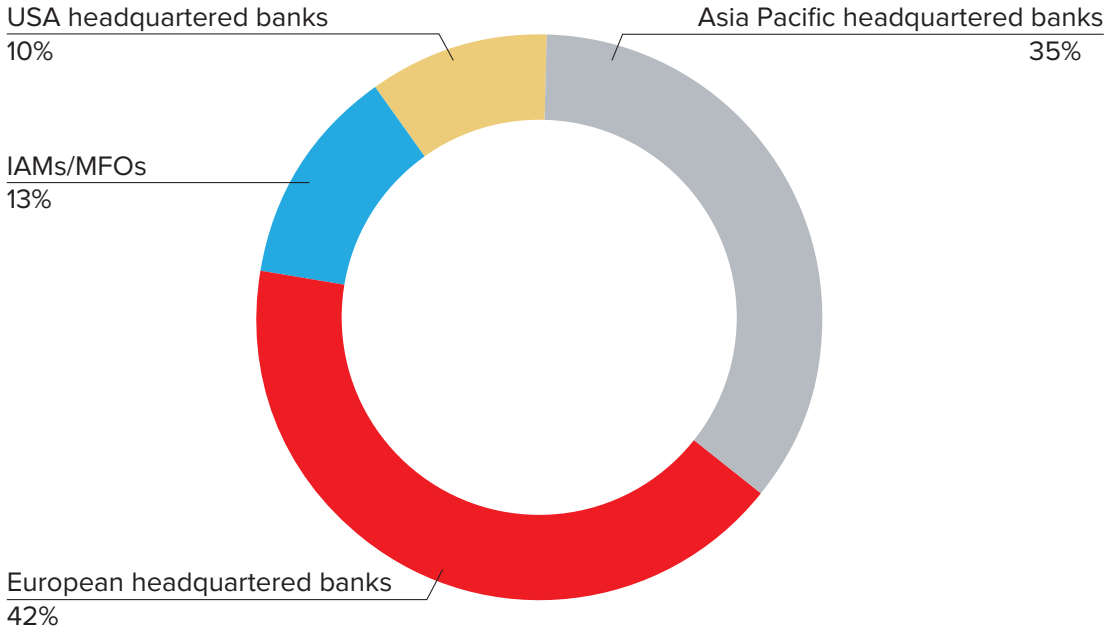
2. Research Methodology

This paper is the result of research commissioned by BearingPoint and conducted by *Asian Private Banker* between September and December 2018. *Asian Private Banker* collected and analysed primary and secondary sources and gathered data within a research framework that integrated quantitative and qualitative analytical tools.

To this end, we set up a five-member research team comprising three members of the Research Department, one member of the Editorial Department and one member of the Relationship Management Department. Furthermore, the research team leveraged a series of *Asian Private Banker* events, along with the company's existing network and members of the management team. Other employees were engaged on an ad hoc basis.

With respect to data collection, *Asian Private Banker*'s research team prepared a questionnaire directed at C-suite officers and executives of private banks, independent asset managers (IAMs) and multi-family offices (MFOs) in Hong Kong and Singapore. The sample was based on 49 completed questionnaires, with 35% of the sample population originating from Asia Pacific-headquartered banks, 42% from Swiss/Euro-headquartered banks, 10% from US-headquartered banks and 13% from IAMs and MFOs. Based on our analysis of respondents' AUM in Asia, the report has market coverage of more than 75% in terms of AUM.

Chart 1: Institution type



In addition to questionnaire collection, we conducted 16 face-to-face semi-structured interviews with chief operating officers (COOs), relationship managers (RMs), and other senior representatives of private banks and wealth managers in Hong Kong and Singapore who are experienced in client tax reporting.

The research project commenced on 1 September 2018. It involved four stages: the necessary preliminary research that included literature review, followed by research design, then by data collection and analysis. The final stage included the drafting, editing, digitalisation, and submission of the research paper, which marked the completion of the research project.

Table 1: Breakdown of research timeline

	Sep	Oct	Nov	Dec
Literature review				
Questionnaire design				
Data Collection				
Data analysis & interviews				
Drafting & interim report				
Editing & digitalisation of report				
Submission of report				

The precise dates for each stage of the research project are as follows:

- Preliminary research: 1 September 2018 - 14 September 2018
- Research design: 14 September 2018 - 5 October 2018
- Data collection: 8 October 2018 - 1 November 2018
- Data analysis: 1 November 2018 - 23 November 2018
- Drafting, editing: 23 November 2018 - 30 November 2018
- Digitalisation: 10 December 2018 - 20 December 2018
- Submission: 21 December 2018

3. Background: Client Tax Reporting in Asia's Private Banking and Wealth Management Market

In 2017, a sustained market rally and robust client activity contributed to a year of gains for Asia's private banks, whose combined assets under management (AUM) — excluding China onshore — surged past US$2 trillion for the first time.[2]

Moreover, according to *Asian Private Banker*, approximately 82.5% of Singapore's AUM originates abroad. This estimate is well in line with the Monetary Authority of Singapore's 2016 Asset Management Industry Survey, according to which the market share of offshore flows was 80% in 2015 and 78% in 2016.[3] Singapore is the third-largest offshore wealth centre with US$900 billion in offshore assets, closely trailing Hong Kong in second with US$1.1 trillion.

Chart 2: Largest offshore wealth centres

	Switzerland	Hong Kong	Singapore	US	Channel Islands and Isle of Man	UAE	Luxembourg	UK mainland	Monaco	Bahrain
Offshore wealth ($trillions)	2.3	1.1	0.9	0.7	0.5	0.5	0.3	0.3	0.2	0.2
CAGR 2012-2017	3%	11%	10%	5%	5%	4%	2%	2%	1%	5%
Top three sources	Germany France KSA	China Taiwan Japan	China Indonesia Malaysia	Mexico China Argentina	UK Russia KSA	KSA Iraq Iran	Germany France UK	China KSA Russia	France Italy UK	KSA Iran Iraq

Source: Global Wealth Report 2018 - BCG Global Wealth Marketing Sizing Database.
Note: Offshore wealth in $trillions. KSA = Kingdom of Saudi Arabia; UAE = United Arab Emirates.

Proximity is a key factor for investors in determining locations for offshore financial services, and both Hong Kong and Singapore are located advantageously in Asia — the centre of global wealth creation. According to the aforementioned *Asian Private Banker* report, Southeast Asia is the largest source of offshore inflows for Singapore, comprising 58% of total inflows. China is a significant source of wealth for both markets, while Taiwan and Indonesia are also key sources of inflows for Hong Kong and Singapore, respectively.

2 *Asian Private Banker*, "Asia 2017 AUM League Table", *Asian Private Banker*. Available at: https://asianprivatebanker.com/asia-2017-aum-league-table/.
3 *Asian Private Banker*, "The Role of Singapore as an Offshore Wealth Management Hub", *Asian Private Banker*, pp.8-9.

A Changing Regulatory Landscape

Over the past decade, tax transparency and anti-money laundering efforts have increased, with new regulatory initiatives — such as the AEOI/CRS, the Foreign Account Tax Compliance Act (FATCA), and global standards on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) — leveling the global playing field and making private wealth management hubs more competitive than ever.

For more than a decade, the United States has been at the forefront of reforming international tax laws. During that time, it has put sustained pressure on Swiss banking secrecy by enacting the Foreign Account Tax Compliance Act (FATCA) in 2010 which requires financial institutions of co-operating jurisdictions to file reports sent to the US government about their American clients. The US has also held landmark cases against banks such as UBS and Credit Suisse, which it fined US$780 million and US$2.5 billion, respectively.[4]

The global economy has followed suit, led by the Organisation for Economic Cooperation and Development (OECD) which developed the AEOI/CRS initiative which is considered a gamechanger in the banking compliance landscape. In 2017, 54 jurisdictions had committed to implementing the system, including Hong Kong and Singapore, while more began reporting in 2018. Most of Asia's sizeable economies have agreed in principle, with the exception of Taiwan and Thailand which are yet to implement CRS in their respective financial institutions, though it was announced that both countries will begin their transition in 2019 and fully implement the global data exchange by 2022.[5]

According to CRS regulations, CRS jurisdictions must satisfy data security standards and identify each citizen of other CRS countries who hold accounts in that region. Data on such individuals must be given to the local tax authorities to forward to the tax authorities in the relevant country. Singapore, Hong Kong and Mainland China committed to their first AEOI exchanges in 2018, a deadline with profound consequences for private banking in the region.[6]

Voluntary Disclosure Policies and Programmes

In the current climate of general uncertainty, governments are aiming to find a balance between creating an investor-friendly environment and protecting their tax bases to raise much-needed tax revenue. Hong Kong's Chief Executive, Carrie Lam, has made tax reform a priority, as she indicated during her first speech in the role. "My new tax philosophy is not exactly 'the more, the merrier'. Sometimes collecting less is highly desirable" she stated, adding that other tax-related measures include "avoidance of double taxation agreements" with other regions. At the time, Hong Kong had 37 such treaties, while Singapore had 90.[7]

Meanwhile, many governments are attempting to retrieve outward offshore flows to markets where

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4 Swissinfo.ch, "Swiss bank settles US tax evasion probe", Swiss Info, 28 July 2018. Available at: https://www.swissinfo.ch/eng/-5-million-fine_swiss-bank-settles-us-tax-evasion-probe/44267588.

5 OECD, "CRS implementation by jurisdiction", OECD, September 28 2018. Retrieved 26 November 2018. Available at: https://www.oecd.org/tax/automatic-exchange/crs-implementation-and-assistance/crs-by-jurisdiction/#den.345489.

6 Ibid.

7 Joyce Ng, "New city leader Carrie Lam puts tax reform at the top of her agenda", South China Morning Post, 29 March 2017. Available at: https://www.scmp.com/news/hong-kong/economy/article/2082903/new-hong-kong-leader-carrie-lam-puts-tax-reform-top-her.

individual and corporate tax rates for income and capital gains are more favourable for businesses and/or individuals. Such markets include Hong Kong and Singapore.

Table 2: Income tax and capital gains tax rates in Asia Pacific

Source: Deloitte 2017 Asia Pacific Tax Complexity Survey[8]

Highest statutory rate updated March 2017

Jurisdiction	For Corporation		For Individual	
	Income tax	Capital gains tax	Income tax	Capital gains tax
Australia	30%	30%	45%	45%
Brunei	18.5%	No	0%	No
Mainland China	25%	*	45%	*
Guam	35%	35%	39.6%	20%
Hong Kong	16.5%	No	15%	No
India	30%	40%	30%	30%
Indonesia	25%	25%	30%	30%
Japan	23.4%	23.4%	45%	45%
Macao	12%	*	12%	No
Malaysia	24%	*	28%	*
Mauritius	15%	No	15%	No
Mongolia	25%	25%	10%	10%
Myanmar	25%	10%	25%	10%
New Zealand	28%	*	33%	*
Philippines	30%	30%	32%	32%
Singpaore	17%	*	22%	*
South Korea	24.2%	24.2%	44%	Varied
Taiwan	17%	17%	45%	45%
Thailand	20%	20%	35%	35%
Vietnam	20%	20%	35%	20%

Note: Offshore wealth in $trillions. KSA = Kingdom of Saudi Arabia; UAE = United Arab Emirates; * = Refer to original source.

Voluntary disclosure policies have become more common as a tool to repatriate taxable offshore flows. Although often used interchangeably, voluntary disclosure programmes and tax amnesty initiatives are not one and the same. Unlike the former, tax amnesties typically offer an incentive in the form of a reduction or waiver in taxpayers' primary tax liabilities, in addition to other beneficial conditions. Notably, Indonesia's presidential candidate Prabowo Subianto plans to slash income taxes, as the government in Jakarta is considering offering a tax amnesty to individuals willing to repatriate funds from abroad — targeting US$225 billion Jakarta says is parked in Singapore alone.[9]

8 Deloitte, "2017 Asia Pacific Tax Complexity Survey: Shifting sands: risk and reform in uncertain times", Deloitte, p. 41.
9 Saeed Azhar, Eveline Danubrata, "Singapore bankers rattled by Asian moves to chase undeclared wealth", Thomas Reuters, 18 August 2015. Available at: https://www.reuters.com/article/singapore-wealth-offshore-idUSKCN0QM22320150817.

Policymakers see tax amnesty programmes as an effective policy tool that creates both short- and medium-term benefits. In the short term, amnesties become an additional source of revenue. In the medium term, a successful tax amnesty programme can increase the tax base — by catching tax evaders in the tax net — and thus future revenue collection. Overall, tax amnesties are thought to improve tax compliance. Recent examples of successful tax amnesty programs are Italy's Scudo Fiscale (2001), which targeted undeclared offshore capital and repatriated some €60 billion.[10]

However, research conducted by the International Monetary Fund (IMF) suggests that tax amnesties are unlikely to deliver benefits that exceed the overall cost of such initiatives and that repeated stand-alone amnesties as seen in some countries have led, over time, to reduced compliance levels and resultant reductions in tax revenue. Revenue bodies that have a history of offering tax amnesties invariably continue to suffer from poor compliance levels and, for this and other reasons, international bodies such as the IMF and OECD strongly discourage the use of tax amnesty-like initiatives.

10 Eric Le Borgne, "Tax Amnesties: Theory, Trends, and Some Alternatives", International Monetary Fund, July 29 2018, p. 2.

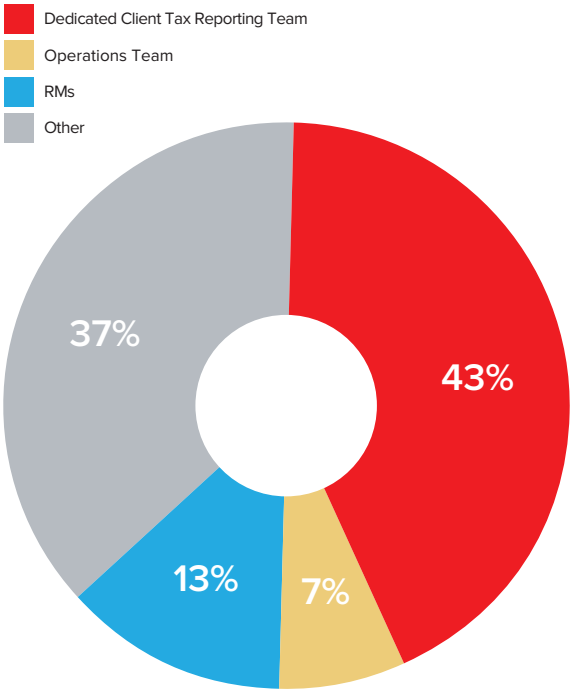
4. Landscape of Client Tax Reporting in Asia

As international tax regulations become more stringent, clients face increased challenges in reporting their onshore and offshore assets to tax authorities. Although tax reporting is typically not a core function of private banks and wealth management firms, clients often seek tax assistance from such institutions. Clients may, therefore, look to their financial institutions to provide tax reports — which consist of tax information such as income, capital gains and wealth — to assist in filing tax returns.

We must note that the vast majority of the private bank representatives we interviewed mentioned explicitly that their institutions do not offer tax advisory services, but in most cases are willing to offer some kind of tax reporting service in order to keep RMs and their end-clients satisfied. The demand for client tax reporting services is growing and the response from banks and wealth managers varies depending on the profile, capabilities and business strategies of the financial institutions.

Less than half (43%) of our sample population reported that they have a dedicated client tax reporting team which is responsible for creating tax reports, while 7% and 13% reported that their operations team and relationship managers handle tax reports, respectively. The remaining 37% outsource their client tax reporting to third-party providers. In many cases, there is no particular structure as it is not a core function of their business and because the offering is relatively new. Based on our interviews, RMs often play the role of intermediary and do not create the tax reports themselves — in most cases, they pass the tax reporting request from their clients to their back office or middle office and once it is processed, they provide the tax report to their clients.

Chart 3: Who is responsible for client tax reporting at your institution in Asia?



For a considerable percentage of private banks and wealth managers, offshore accounts constitute a large share of their total client base in Asia. According to our survey, on average, 58% of the client base in private banks in Asia are cross-border clients. A further breakdown shows that IAMs/MFOs have the highest percentage of cross-border clients at 68%, US- and Europe-headquartered banks follow closely behind with 62% and 59%, respectively. Asia-headquartered banks, which ranked lowest among our sample population regarding the proportion of cross-border clients, still came in with 46%.

Chart 4: What is the percentage of cross-border clients at your institution in Asia?

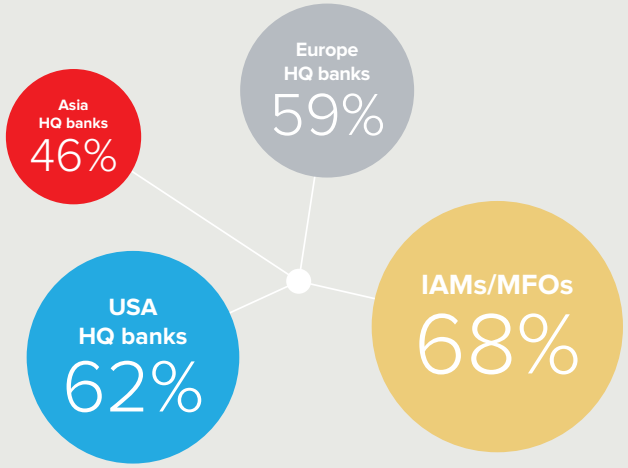
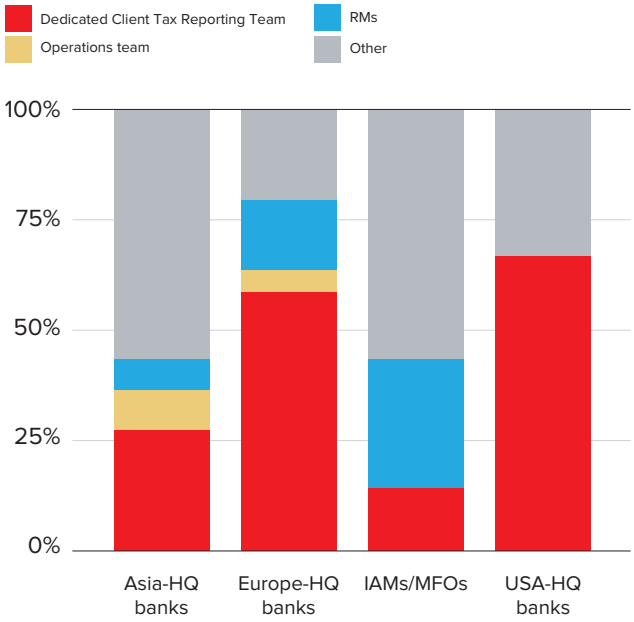


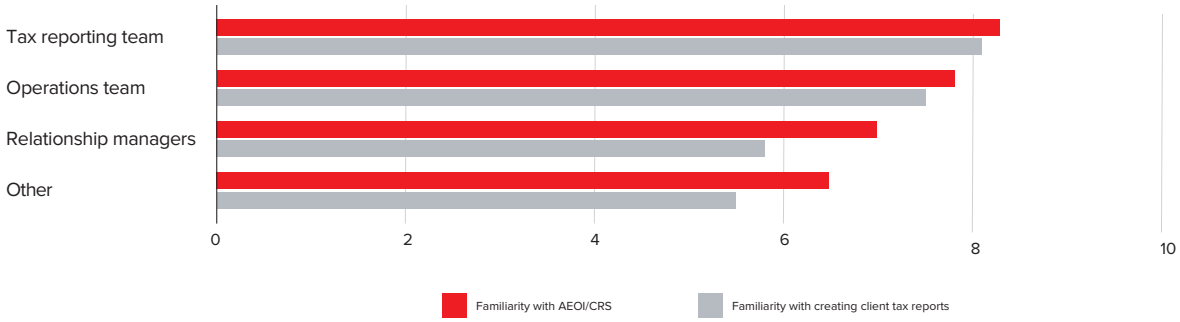
Chart 5: Who is responsible for client tax reporting at your institution in Asia? (by institution type)



Accordingly, Europe- and US-headquartered banks have allocated more resources towards handling client tax reporting in-house compared to Asia Pacific-headquartered banks, with 60% of Europe-headquartered banks and 67% of US-headquartered banks reporting that they have a dedicated client tax reporting team, while Asia Pacific appears to lag behind, with only 29% reporting the same. The discrepancy between Asia and their Western counterparts can be explained by the exposure European and US banks have to compliance risks stemming from initiatives — such as FATCA, CRS and MiFID II — which originated in the US and EU. As a result, they tend to have robust compliance teams in Europe which, in many instances, are responsible for client tax reporting services in Asia.

As expected, institutions with dedicated client tax reporting teams have the most familiarity with creating tax reports and understanding regulatory issues such as AEOI/CRS and other international tax laws like FATCA. Among in-house solutions, institutions where RMs are responsible for processing client tax report requests have the least familiarity with regulatory issues and creating tax reports. Moreover, they receive limited to no training on this topic.

Chart 6: How would you rate the familiarity of your institution with AEOI/CRS, and how would you rate the familiarity of your institution with the process of creating tax reports?



One in three respondents stated RMs and other relevant employees at their institutions have undergone training on client tax reporting, and the majority of the interviewees claimed they would organise at least one training session on client tax reporting over the next 12 months. Against this backdrop, we can attribute the lack of familiarity with client tax reporting not only to the fact that it is not a core business area for private banks and wealth managers but also to limited training. Given expectations of rising demand as well as expressed interest in developing a better understanding of the topic, it is becoming increasingly important for financial institutions to increase their respective offerings of training on client tax reporting in order to enhance their capabilities as well as improve customer service experience.

Chart 7: Have your RMs and other relevant employees at your institution undergone training on client tax reporting?

Over the last two years, all institution types have experienced a significant uptick in requests for client tax reports, with 65% of our sample population reporting increased interest from their clients. A further breakdown shows that the increased interest is uniform among the private banks and IAMs/MFOs. There is also little discrepancy geographically, as respondents in both Hong Kong and Singapore reported high interest among their clients. This shows the impact of tightening international regulations, such as AEOI/CRS which have recently been implemented in both markets following pressure from abroad on all types of institutions — hence there is little differentiation between institution types.

Chart 8: Has the demand for tax reports among clients at your institution increased in the last two years? (by institution type)

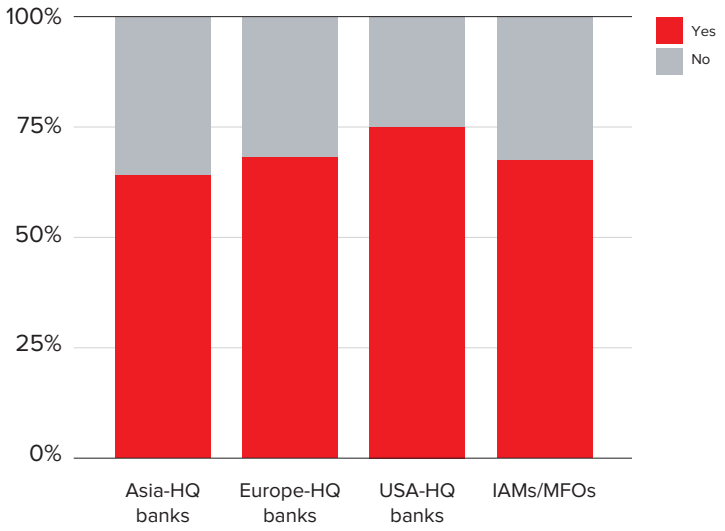
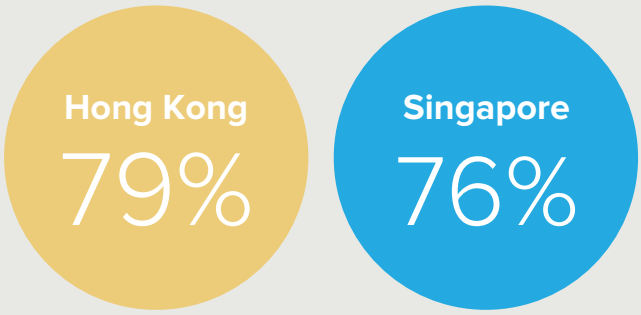


Chart 9: Increase in the demand for tax reports among clients at your institution in the last two years?

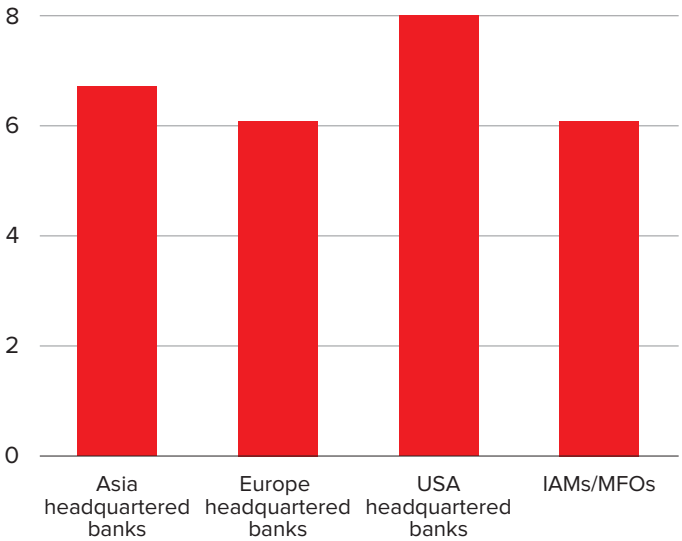


Furthermore, those who participated in our survey expect the importance of client tax reporting will only increase in the future, with 97% of our sample saying it will either increase or significantly increase, while the remaining 3% predict it will remain the same. In parallel, anecdotal evidence from interviews revealed that there is increasing concern not only about the data that will be provided to regulators but also how regulators will use the collected information.

Wealth managers who participated in our survey believe that providing client tax reports could help in attracting new clients, with the average level of impact being 6.5 (on a scale of 1 to 10, with 10 denoting the highest impact and 1 the lowest). A further breakdown of our data shows that bankers at US-headquartered banks most strongly believe in the impact providing client tax reporting services could have. The discrepancy could be due to the complexity of FATCA as well as the fact that FATCA has been implemented for much longer in the US compared to Hong Kong and Singapore's relatively recent adoption of the AEOI/CRS in 2014.

Chart 10: What is your forecast for the demand of client tax reporting in the next three years?

Chart 11: What is the impact of providing client tax reports on attracting new clients? (by institution type)

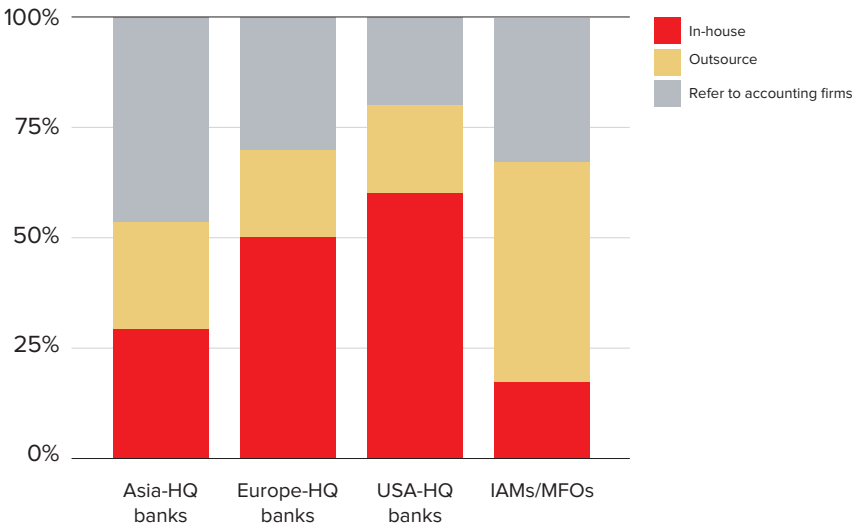


Our interviews with private bankers revealed an important benefit of providing client tax reporting services, as such an offering may give private banks a comparative advantage to attract clients whose assets are booked at institutions that do not offer such services, and therefore they may be hesitant to keep their offshore assets at their current banks.

On the other hand, we need to keep in mind that a fact sheet released by the Hong Kong Association of Banks recommends that banks should not offer any tax advice and should seek the advice of professional legal and/or tax advisors. This advice echoes the respective landscape, as during our interviews in Singapore, COOs and regulation executives at banks insisted they do not offer any tax advice to their clients.

European offshore financial institutions also tend not to offer tax advice to clients, but — unlike as in Hong Kong and Singapore — offer tax reports as a standard service because they don't consider these reports to be tax advice. Rather, tax reports are viewed as the application of effective end-of-year tax rules and year-end services. Meanwhile, the majority of IAMs and MFOs outsource their client tax reporting services to third-party providers who handle the entire process externally as they often do not have the bandwidth to generate tax reports.

Chart 12: Which of the following best describes the client tax reporting process at your institution? (by institution type)



Currently, 52% of our contributors that offer tax reporting solutions provide their clients with non-country specific (i.e. generic) tax reports, which include the basic information required to complete most tax returns. By contrast, 19% of our sample population provide country-specific tax reports, which are compiled based on country-specific tax treatments and calculations. These statements typically contain details about taxable capital gains, income and other income that help end-clients file their tax returns with minimal effort. The remaining 29% of our sample population reported that they provide both generic and country-specific reports.

11 Hong Kong Association of Banks, "Foreign Account Tax Compliance Act (FATCA) Fact Sheet", Hong Kong Association of Banks, p. 5.

Chart 13: Which of the following best describes client tax reports provided at your institution?

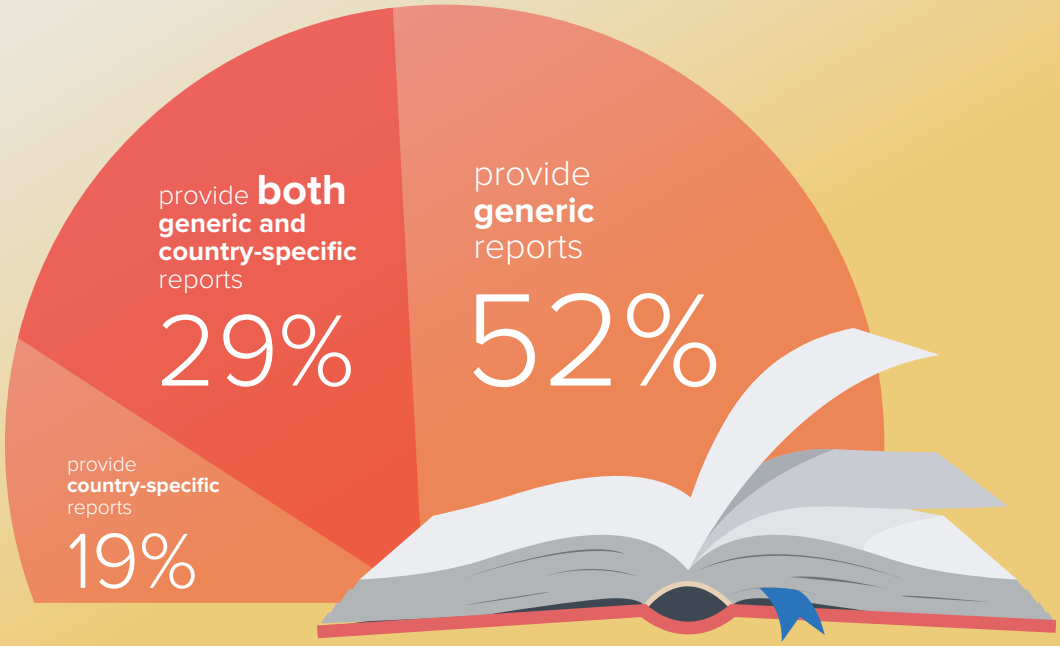
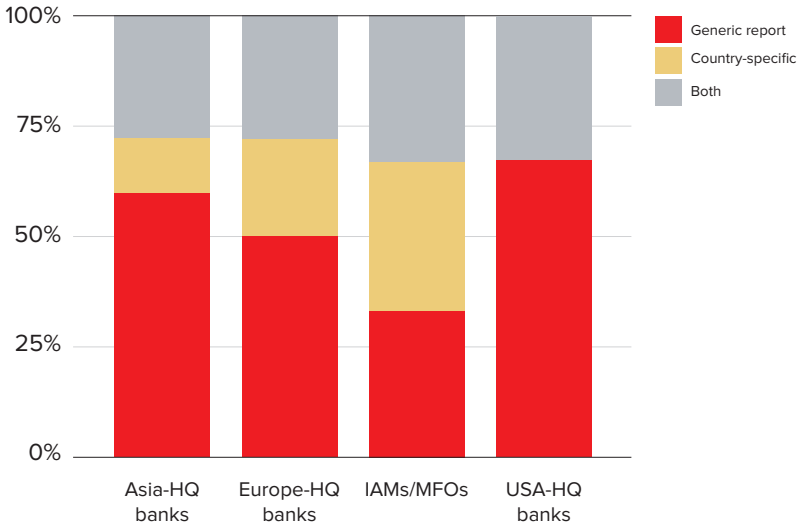


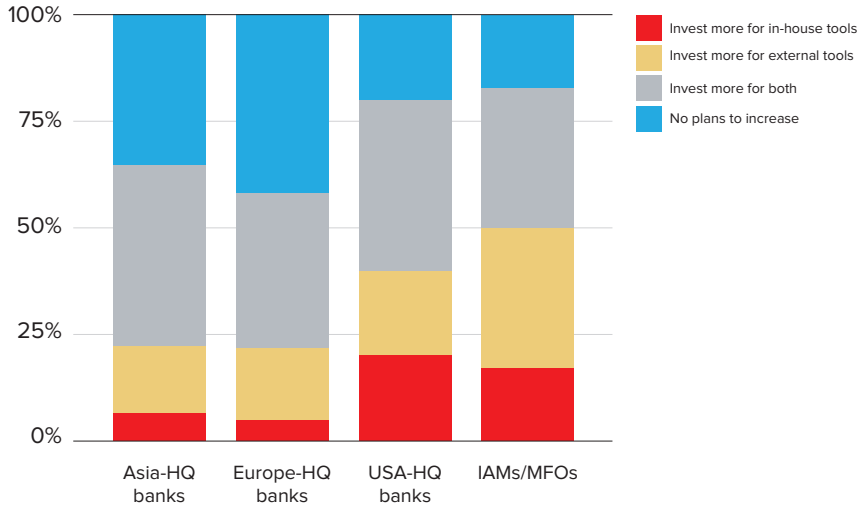
Chart 14: Which of the following best describes client tax reports provided at your institution? (by institution type)



Overall, 66% of banks are planning to increase their investments in additional client tax reporting services in the next 12 months based on their clients' needs. 39% plan to increase investments in both in-house and external tools, 18% will increase their outlay on external tools, and 9% will allocate more resources to in-house solutions. According to our interviewees, plans to enhance in-house tools and external structures include offering more country-specific solutions.

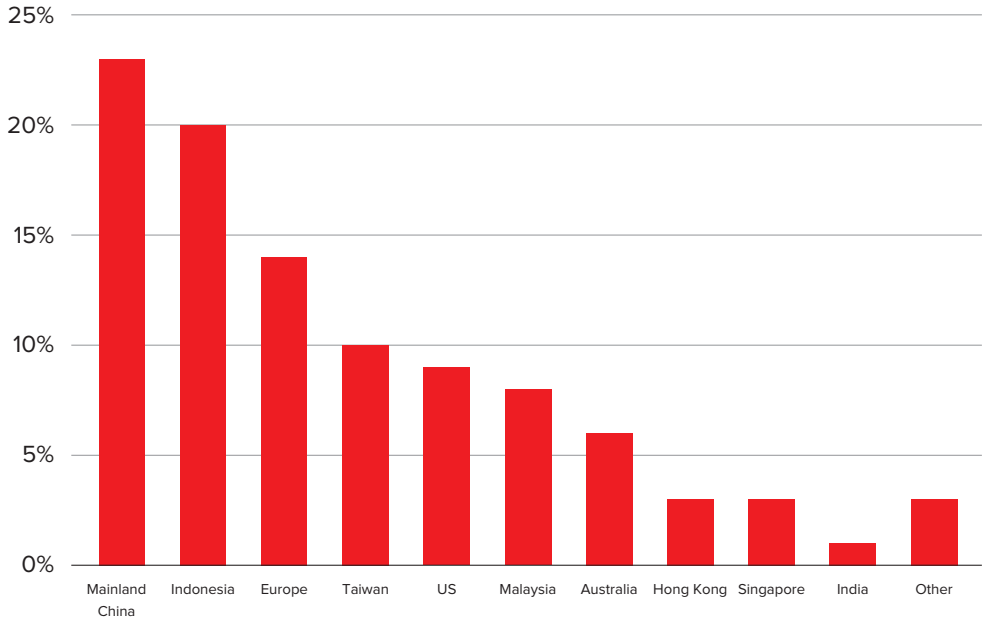
Institutions most often receive requests for country-specific tax reports for Mainland China, Indonesia and Europe. As previously mentioned, proximity and cultural ties are key factors in determining where investors choose to seek their offshore financial services. For financial institutions in Hong Kong, Mainland China is the most prominent client base, as tightening regulations on capital controls in Mainland China have prompted HNWIs/UHNWIs to book their assets offshore.

Chart 15: Does your institution plan to increase its investment in additional client tax reporting services based on clients' needs in the next 12 months? (by institution type)



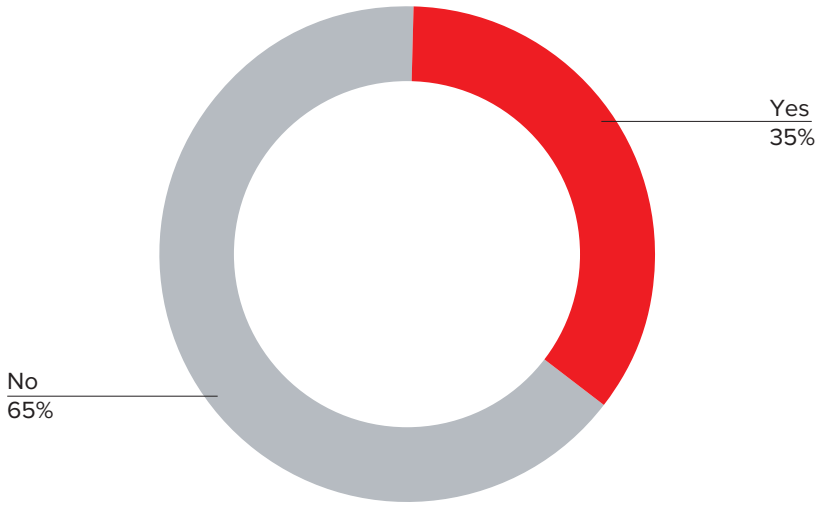
Despite ongoing efforts by Prabowo Subianto to convince Indonesian investors to repatriate funds from abroad, Singapore remains a popular offshore wealth hub for the market. Meanwhile, many Taiwanese investors have booked their assets in Hong Kong but there is an increasing contingent of investors that prefer Singapore as their destination for offshore wealth, presumably due to Hong Kong's geographical and/or political proximity with Mainland China and the continuous tension between Taiwan and the Mainland. Furthermore, Singapore has become an increasingly popular destination for Mainland Chinese investors, as the Mainland's regulatory, political and financial influence over Hong Kong has become a critical concern among HNWIs/UHNWIs who seek to move their money offshore. Europe remains an important source of offshore flows for both markets, especially for IAMs and MFOs.

Chart 16: Most popular countries that your institution has received request in creating tax reports for



The majority (65%) of our sample population do not charge clients fees for tax reports. For those that do charge, fees are minimal in most cases, usually ranging from US$100-300. This supports the notion that most institutions do not consider tax reporting a core business revenue stream, but rather see it as a service that enhances overall customer experience.

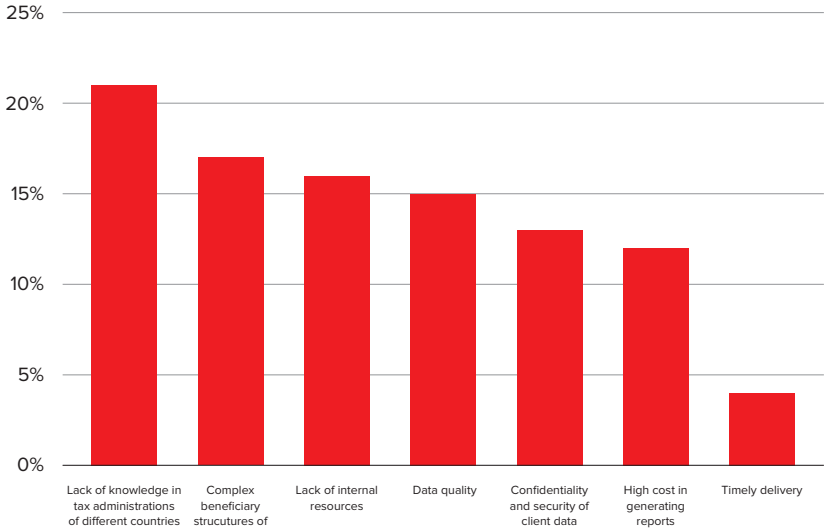
Chart 17: Does your institution charge a fee for providing client tax reports?



5. Client Tax Reporting in Asia: Perceptions and Opportunities

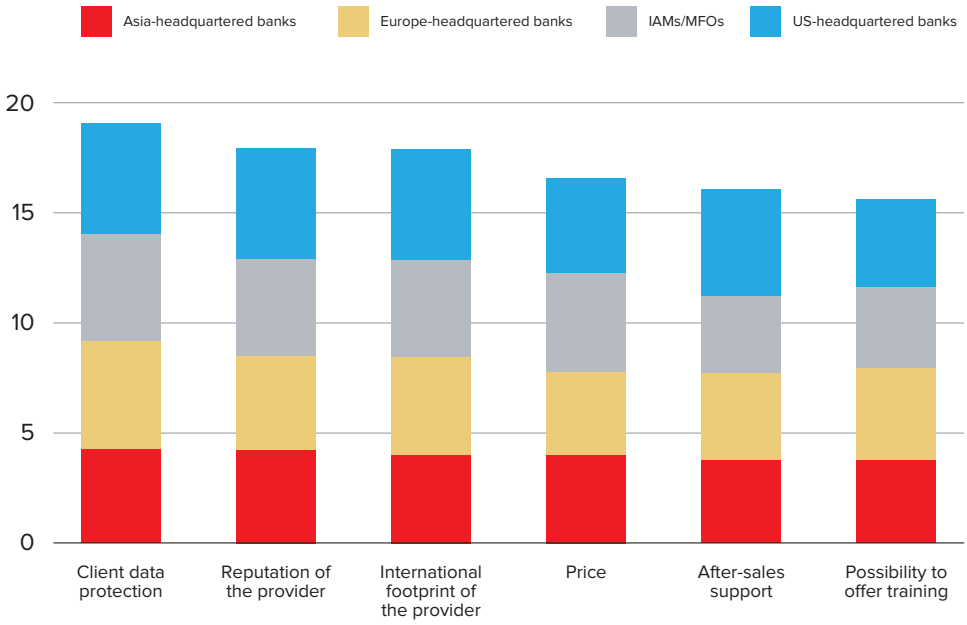
Banks acknowledge the importance of implementing tax reporting services, but there are major challenges that stand in the way of such services becoming common practice. Few institutions offer country-specific reports, largely due to lack of knowledge about country-specific tax rules and tax administrations of different countries. Data quality, complex beneficiary structures of clients' accounts and lack of internal resources are also major hurdles that financial institutions face. Our interviewees revealed that their main concern with the introduction of AEOI/CRS was uncertainty around how regulators will eventually use the data, as increased transparency may drive away some of their offshore clients.

Chart 18: What are the biggest challenges in creating tax reports for clients?



The uncertainty affects financial institutions' decisions about external providers of client tax reporting solutions. According to the sample population, the most important concern around choosing external providers of tax services is data protection, followed by providers' reputations and their international footprint, presumably for the increased assurance that accompanies well-established providers. However, a large number of our interviewees replied they favour the prospect of working with more boutique regional or domestic providers, showing there are mixed perceptions about choosing external providers.

Chart 19: Rate the following considerations when choosing external providers of client tax reporting solution(s) (by institution type)



Similarly, when our sample population ranked the most desirable features for an external client tax reporting tool, the capability of having timely updates on tax regulation changes came out on top. High predictability and consistency in tax regimes are perceived as crucial when creating tax reports but remain elusive with tax laws constantly changing in many jurisdictions. Ease of generating tax reports and real-time updates of tax impact on portfolio round out the top three. Overall, the results appear to be geared toward giving RMs the tools to oversee tax reporting efficiently.

Chart 20: Rate the following features when choosing a client tax reporting tool (by institution type)

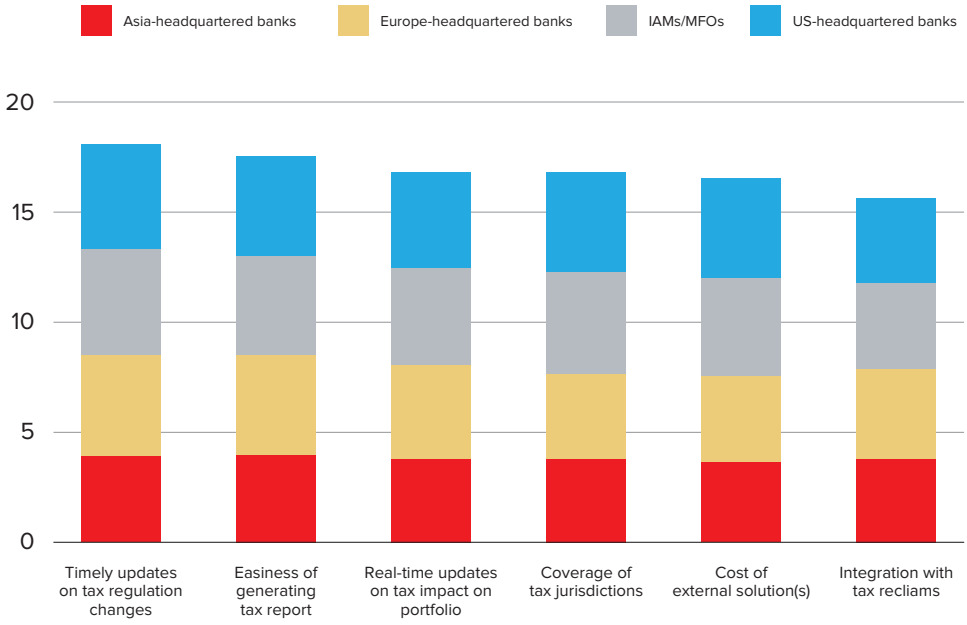


Chart 21: How would you rate your clients' satisfaction in tax reports provided by your institution? (by who is responsible for CTR)

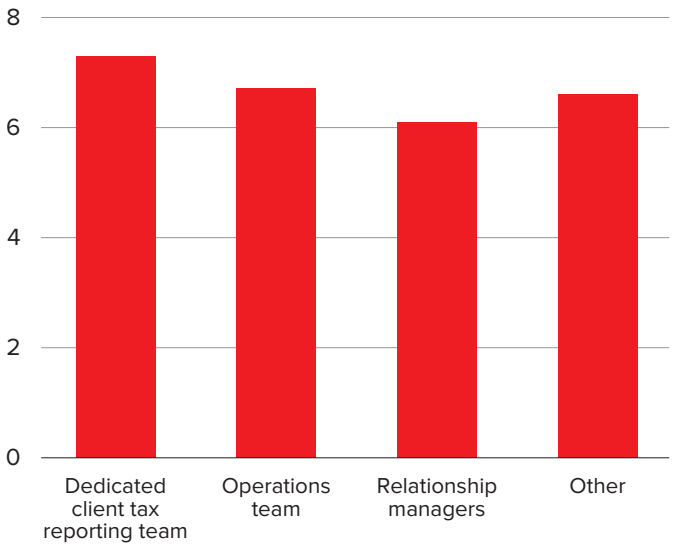
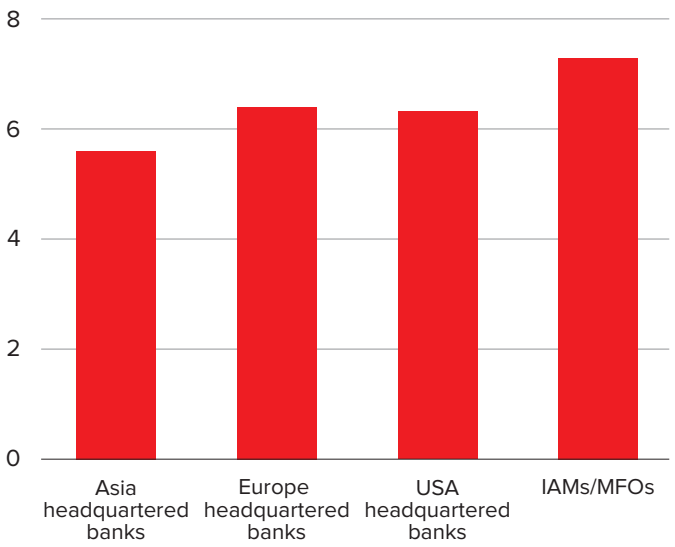


Chart 22: How would you rate your clients' satisfaction in tax reports provided by your institution? (by institution type)



Clients generally appear to be satisfied with the results of their tax reports. Unsurprisingly, institutions with dedicated client tax reporting teams had the highest satisfaction, followed by firms where operation teams are responsible for creating the tax reports. Client satisfaction is lowest at institutions where RMs, who typically receive little to no training on the topic, are responsible for creating the tax reports.

According to institution types, clients at IAMs and MFOs were most satisfied with tax reporting services. Typically, IAMs and MFOs from our sample population outsource their requests for tax reporting, while Europe- and US-headquartered banks who often have dedicated tax reporting teams also received feedback indicating above average satisfaction from their clients as the institutions have more experience with tax reporting processes.

Finally, institutions find the quantity — an average of 3.3 out of 5 — of external client tax solution(s) providers in the market to be good enough and although it is a relatively new service, the feedback about quality (3.7 out of 5) is above average, but there is ample room for growth.

Chart 23: How would you rate the quantity and quality of external client tax reporting solution(s) providers in the market?

6. Conclusion

This research paper offers a thorough analysis of the client tax reporting landscape in Asia's private wealth market and the opportunities for private banks and wealth management firms in the region, with a focus on Hong Kong and Singapore. A tightening regulatory climate and increased tax transparency with the introduction of the AEOI/CRS, in parallel with high levels of offshore flows from Mainland China and South East Asia are presenting Hong Kong and Singapore with an opportunity to attract new foreign clients.

The demand for client tax reporting services has increased as both onshore and offshore clients seek to mitigate regulatory risks. In particular, 65% of our sample population, which includes chief operating officers, relationship managers and other senior representatives of private banks, have noticed a rising interest from their clients in client tax reporting services over the past two years and 97% predicted that interest will increase over the next three years.

Therefore it is important for institutions that offer tax reporting services to increase their sophistication in order to accommodate their clients whose portfolios are often diversified in several markets, which are subject to tax laws in multiple jurisdictions. Private banks and wealth managers need to keep in mind that meeting client demand by providing adequate tax reports and helping them mitigate regulatory risks will enhance the customer experience and could attract new clients.

The approach banks and wealth management firms employ to meet the growing demand for client tax reporting services varies depending on the size, capabilities and business strategies of the financial institutions. 43% of our population has a dedicated client tax reporting team, while 37% outsource their clients' requests to third-party providers. Europe- and US-headquartered banks have allocated more resources towards handling tax reporting in-house compared to Asia-headquartered banks, but the latter is planning to increase investments in client tax reporting services. The majority of IAMs and MFOs outsource to external providers as few of these firms have the bandwidth to handle tax reporting processes in-house.

Two-thirds (66%) of the institutions that participated in our survey reported that they plan to increase investment in additional client tax reporting services over the next 12 months based on client demand, highlighting how important it is for firms to increase their client tax reporting capabilities. Most institutions are planning to increase investment in both in-house tools and external providers, denoting the increasing significance private banks attach to client tax reporting services.

While financial institutions' familiarity with AEOI/CRS is good (average: 7.6 out of 10), their familiarity with creating client tax reports is significantly lower (average: 6.9 out of 10). This emphasises the need for more training, as currently only 33% of firms offer training specifically on client tax reporting.

The top three markets that institutions receive requests in creating tax reports for are Mainland China, Indonesia and Europe. Proximity and cultural ties are key factors in determining where investors seek their offshore financial services, thus Hong Kong and Singapore are well-located offshore hubs in a region that leads the world in wealth creation. Europe remains an important source of offshore flows for both markets, especially for IAMs and MFOs, as many of these institutions have a presence in both Asia and Europe.

There are major challenges that remain for implementing tax reporting services, the most prominent being the lack of knowledge in country-specific tax rules and tax administrations of different countries. A common concern expressed by our interviewees was the uncertainty about how regulators will eventually use data collected by AEOI/CRS amid increased tax transparency. Accordingly, the most important consideration when considering external providers was client data protection.

Looking ahead, tightening regulations and increasing information disclosure will lead to an increasing volume of offshore flows from Southeast Asia and Mainland China, to Hong Kong and Singapore. In this context, adapting to the new global tax regulatory standards can serve as a comparative advantage to attract offshore AUM. As demand for client tax reporting increases, more firms will offer country-specific reports. To this end, some will seek partnerships with big multinational tax and accounting service providers, and others will opt to partner with more boutique solution providers that they associate with sophistication and expertise at a lower cost.

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