

EXPLANATORY MEMORANDUM TO THE AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND THE GOVERNMENT OF THE BRITISH VIRGIN ISLANDS TO IMPROVE INTERNATIONAL TAX COMPLIANCE

Title of the Agreement

Agreement Between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the British Virgin Islands to Improve International Tax Compliance.

Subject Matter

As part of its approach to combating tax evasion and avoidance through increased international transparency, the UK is entering into an agreement with the British Virgin Islands for the automatic exchange of information relating to certain categories of financial products held by UK tax residents through financial institutions in the British Virgin Islands.

This is a part of a wider move to increased automatic exchange of tax information (building on the current standard of exchange on request) which will provide a step change in our ability to tackle offshore evasion.

This agreement is designed to be largely consistent with the agreements each party has or will be concluding with the US to provide for the automatic exchange of information to implement the US reporting regime commonly referred to as FATCA. This is to provide an effective means to tackle offshore tax evasion while minimising costs both for governments and business.

This agreement is non-reciprocal in nature. The UK will therefore not be requesting data from UK financial institutions under the terms of this agreement.

However, under the agreement the British Virgin Islands undertakes to introduce a requirement, through domestic law, for their financial institutions to report relevant data to their Competent Authority. Such data will then be exchanged by the Competent Authorities (in the UK, HM Revenue and Customs (HMRC)) as envisaged under the exchange of information provisions in Article 5a of the UK/ British Virgin Islands Tax Information Exchange Arrangement (an amendment to which has now been signed by the parties). This ensures the confidentiality provisions therein apply.

Ministerial Responsibility

The Parliamentary Under Secretary of State for Foreign and Commonwealth Affairs has responsibility for UK relations with the British Virgin Islands. The Exchequer Secretary to the Treasury has direct policy interest in the Agreement.

Policy Considerations:

General

This bilateral agreement represents one of the first steps in developing a new global standard in the automatic exchange of information in order to tackle tax evasion. The UK has been at the forefront of the work in developing this model, along with the governments of France, Germany, Spain and Italy (the G5) and throughout its Presidency of the G8 in 2013.

The result of this work has been the commissioning of the OECD, by the G20 at Moscow in September 2013, to develop a common reporting standard to allow for automatic exchange

of information on a consistent basis. This will provide a step change in the international community's ability to tackle those who conceal their assets offshore to evade tax.

Financial

The agreement has been modelled closely on the agreements being signed with the US. This is to provide for a consistent framework for reporting by financial institutions and for information exchange.

There are some differences to the agreements being signed with the US which reflect the differing contexts to the agreements. Where possible we have looked to make these differences consistent with the emerging new OECD standard.

Reservations and Declarations

There are no reservations or declarations.

Consultations

Since March 2013 HMRC and HM Treasury have undertaken extensive stakeholder engagement with representative bodies and businesses to develop a workable agreement.