

Big Brother Is Watching



I've been reading the George Orwell classic 1984 recently and I was struck by how visionary Orwell was.

If you are not familiar with the book, Orwell paints a grim picture of a future (the book was written in 1948) in which the **ruling government** is fully in control of its citizens in every way from **gross infringements of personal freedoms** and privacy, right through to an attempt to control citizens' thoughts.

I couldn't help but be reminded of the world we find ourselves in today. I'm not just talking about those cameras that are popping up all over our suburbs. You know, the ones that are there **"for your safety"** whether you like it or not. Perhaps it is just a symptom of working in the well- (over?) **regulated financial services industry**, but I couldn't shake the feeling that Orwell's fiction is closer to reality than he ever could've thought it would be.

You may not even notice the number of times that you **consent** to your personal financial information being shared across borders anymore, because it has become the norm for us to have to complete a ridiculous amount of forms for the most basic of **financial transactions**. The forms always politely ask for your consent, but it is not like you have the option to opt out of having your financial data shared. If you do not consent, these **investment companies** will just refuse to approve your application. In their defence - in most cases, they will not be allowed to do business in their respective regions unless they **commit to gathering your information** and passing it on to the powers that be.

This is done in line with various **international treaties** and **local legislation** of countries around the world, all under the auspices of combating crimes like **money laundering, tax evasion and terrorism**. For the greater good indeed, but lately, you can't help but feel like you are being treated with suspicion every time you want to manage or invest your own hard-earned savings. Let's have a look at some of the global agreements and laws that currently govern your investments, whether you like it or not.

Common Reporting Standards

Around 97 countries in the world are collaborating via the OECD to comply with Common Reporting Standards or "CRS". This means that their **tax authorities share common information** with each other by making all regulated financial institutions report certain information to them, including, but not limited to:

- Personal identifying information (name, tax number in your home country, etc.)
- Account details (of the bank account/investment/shareholding)
- The total account balance/value of your accounts calculated at the end of the calendar year, including any interest (excluding the balance of any excluded accounts)
- CRS was agreed to by the G20 countries in 2014 and reporting started in 2017, with more countries joining the agreement on an annual basis.

Foreign Account Tax Compliance Act

Not to be included in a mere "common" international agreement, the US has its own legislation called the Foreign Account Tax Compliance Act, or FATCA. Wikipedia explains that FATCA requires all **non-US foreign financial institutions** (FFIs) to search their records for any indication of a **connection to the US** (including prior residency, birth, etc) and to report the assets and identities of such persons to the US Department of Treasury.

The institutions that enter into an agreement with the IRS to report on their account holders may be required to withhold 30% on certain payments to foreign payees if such payees do not comply with FATCA. Ironically, the US has yet to comply with FATCA itself, because as of 2020, it has not yet provided the promised reciprocity to its partner countries and it has failed to sign up to the Common Reporting Standard (CRS) to date.

But how do these international tax authorities gain the information to share with each other in the first place? Well, they force their **local entities** to supply it to them. **Investment companies** will lose their regulatory approval or trade licences if they do not do the spying for the tax authorities. This is quite evident if you picture the amount of information that was already pre-populated on your 2021 tax return when you logged into the South African Revenue Services' system to view your auto-assessment this year. Similar to when you have no choice about sharing your life-long financial history when all you want to do is set aside R150 a month for your niece, entities have no option but to comply.

Locally, the information can come from many sources:

- Your bank;
- Your employer;
- The Deeds Office for property transactions;
- Financial institutions for mortgage loans or motor vehicle finance;
- Vehicle registrations;
- Social and other media where your lifestyle can be ascertained; and
- Tip-offs. Sars actively encourages people to tip them off when they think people they know are living beyond their means. Irritate any of your neighbours recently?

Financial Intelligence Centre

When we transact, we do not even bat an eye when it comes to the FICA (Financial Intelligence Centre Act) documents we are required to provide anymore, because we have no choice in the matter. But there is so much more to FICA. Did you know that if the entity merely has a **suspicion** that all is not right, it needs to report the incident to the center? One example from the FICA legislative guide (“G4 110408”):

“Where a customer’s instruction to close an account was preceded by a request by the institution for additional or updated information pertaining to the customer, the decision to rather close the account than to provide the requested information may be regarded as suspicious.”

Really? I did that a few weeks ago when my bank asked for updated FICA documents on an account that I hadn’t used in years. I didn’t need it anymore, so I just closed it. I wonder whether I am on a high-risk list somewhere now? Never mind the fact that I have several other accounts that are compliant with the same bank and they would have seen that if they just looked at me holistically, rather than as an account number...but that is an article for another day!

The European Union is toying with the idea of keeping a **central asset register** to keep track of its citizens’ wealth. Initial plans look to include **gold, digital currencies and even art** in the register, over and above the formal (investment) assets that are already being tracked under CRS.

Once again, the tracing of **money launderers and tax evaders** is noted as the primary objective of such a register but one has to wonder how it is going to achieve anything that cannot already be done by all the existing legislation in place.

While fighting terrorism and levelling the taxation playing field is all well and good, we cannot help but wonder where it will all end. More so when even the **biggest governments** and most **technologically** advanced companies (yes, you, Facebook) are being **hacked** on a daily basis. Even if you have nothing to hide from any authorities, the accumulation of terabytes of personal data on servers all around the world is a scary thought.

There is not much you can do to avoid it if you want to invest, but we recommend that you think twice about who you deal with. You can only cross your fingers that they respect your privacy as much as they claim to even if they don’t have much say in the matter either.

Last but not least - and we’ve said this several times before - if you think you can hide investments and get away with evading tax, your days are numbered. **Big Brother really is watching!**

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