

## Learn About IRS FATCA Model 1, Option 2

Trans World Compliance Discusses IGA Model 1, Option 2

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Trans-World Compliance, Inc. has learned about the IRS plans to make the IRS IDES FATCA reporting system available to IGA (Inter Governmental Agreement) Mode 1 jurisdictions under a plan they are calling “Model 1, Option 2”. This appears to be largely undocumented, but referenced and supported in the IRS’ IDES FATCA reporting system. Jurisdictions that opt to use the “Model1, Option 2” scheme will join financial institutions in non-IGA countries, US financial institutions, and Model 2 institutions in using IDES for FATCA reporting.

Under this plan, it would appear that the US government is offering jurisdictions with Model 1 IGAs to have their local financial institutions report to the IRS IDES computer rather than directly to the local tax authorities. Under this so called Model 1 Option 2 scheme, financial institution data would be embargoed for seven days to give the Host Country Tax Authority time to review and approve or reject data before it is moved into the IRS system for processing.

For some time now Trans World Compliance has been hearing requests by smaller jurisdictions for relief from the time, expense, and expertise required by a Model 1 jurisdiction to setup and operate a computer system for the sole purpose of receiving data for onward transit to the IRS. This appears to be the US government response to these requests.

Trans World Compliance has not heard of any jurisdictions that are currently taking the US government up on this offer, and TWC’s take is that it may be problematic at best. One of the advantages of a Model 1 IGA is to allow a jurisdiction to circumvent data privacy laws. Local Foreign Financial Institutions were in a bind if they wanted to be a Participatory FFI to avoid the 30% withholding. By registering with the IRS, the FFIs are agreeing to turn over US tax payor information to the IRS. However, if local data privacy and banking secrecy laws prevented turning over such data, the financial institution was conflicted: it would either be violating the FFI agreement or the local data privacy law. In a Model 1 agreement, the FFI adheres to local law by turning over banking data to the local regulator, who then forwards the data to the IRS, thereby absolving the FFI from issues regarding data privacy violations. It is unclear under the Model 1 Option 2 scheme where financial institutions export banking data to the IRS computers, embargoed or not, would still run afoul of local data privacy legislation. This will have to be examined on a jurisdiction by jurisdiction basis.

Complicating matters, time is running short. Only approximately half the Model 1 IGAs are signed with the rest announced but not signed. Until an agreement is in place, no local law can be enacted, which means no direction to local tax authorities to begin the process of setting up and testing a reporting system. As such, Trans World Compliance expects that a number of jurisdictions may take advantage of the Model 1 Option 2, at least initially, as a relief valve to buy more time to setup alternative reporting mechanisms.

Trans World Compliance will continue to monitor the situation and provide regular updates. To learn more about FATCA, Model 1 Option 2 reporting, or to schedule a demo of TWC’s FATCA One compliance software contact [sales@transworldcompliance.com](mailto:sales@transworldcompliance.com) or visit [www.TransWorldCompliance.com](http://www.TransWorldCompliance.com).

## About FATCA:

The Foreign Account Taxation Compliance Act (FATCA) was enacted in 2010 by the US Congress as part of the Hiring Incentives to Restore Employment (HIRE) Act. FATCA requires Foreign Financial Institutions (FFIs) to provide the IRS with information about financial accounts held by U.S taxpayers, or by foreign entities in which U.S. taxpayers hold a substantial ownership interest. In order to avoid withholding under FATCA, a participating FFI will have to enter into an agreement with the US' tax authorities, the Internal Revenue Service (IRS), to identify U.S. accounts, report certain information to the IRS regarding U.S accounts, and withhold a 30 percent tax on certain U.S. connected payments to non-participating FFIs and account holders who are unwilling to provide the required information. The IRS expects raise \$7.6 billion in additional tax revenues over ten years.

## About Trans World Compliance, Inc.:

Trans World Compliance Inc., provides cloud based software solutions to simplify the compliance and regulatory requirements for US, Foreign Financial Institutions, tax regulatory bodies and governments. Trans World Compliance saves time, lowers overheads and improves accuracy for compliance with international regulatory tax regulations and mandates by centralizing data, raising flags, tracking remediation, automated reporting, and providing an independent 3rd party audit of policies and procedures. Trans World Compliance's flagship product, FATCA One™ was created for the purpose of FATCA regulatory reporting, designed by international compliance and IT experts, adheres to a full range of international standards, and supports multiple rule-bases with specifics for different jurisdictions and reporting year.

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