

OECD releases IT-tools to support the implementation of TRACE and wider exchange of tax information

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Executive summary

On 25 February 2020, the Organisation for Economic Co-operation and Development (OECD) released an XML Schema and User Guide to support the technical implementation of the OECD's Treaty Relief and Compliance Enhancement (TRACE) initiative (the [TRACE XML Schema and User Guide](#)). The TRACE XML Schema and User Guide provide guidance on the standardized electronic format to be used for reporting TRACE-related information by financial institutions to tax administrations and for the exchange of information between tax administrations. It is intended to complement the TRACE Implementation Package, which sets out the procedures, forms and agreements to be put in place to operationalize the TRACE Authorized Intermediary system that was approved by the OECD's Committee on Fiscal Affairs (CFA) in 2013.

Also, on the same date, the OECD released a dedicated XML Schema and User Guide (the [Generic Status Message XML Schema and User Guide](#)) that allows tax administrations to provide structured feedback to the sender on errors encountered with respect to tax information exchanged through the Common Transmission System (CTS). The CTS is a secure, encrypted vehicle created by the OECD to enable bilateral exchanges of tax information.

Detailed discussion

History and background

In 2006, the CFA and the Business and Industry Advisory Committee (BIAC) associated with the OECD agreed to pursue work on improving the process by which portfolio investors may claim withholding tax relief at source on portfolio investments. To this end, an Informal Consultative Group (ICG) made up of government representatives and experts from the business community was created. Among other issues, the ICG recommended that further work be undertaken to promote substantial uniformity across source countries in terms of the format used for reporting to multiple other source countries, procedures to be followed by authorized intermediaries to confirm the identity and treaty eligibility of their clients, and other compliance procedures, including liability issues.

In January 2009, the CFA approved the formation of a Pilot Group made up of government delegates and business representatives to pursue this work. In December 2009, the Pilot Group produced a draft of the Implementation Package and in January 2010, the CFA released the Pilot Group's draft for public consultation. It also established a dedicated TRACE Group, made up of government delegates, to further develop the Pilot Group's draft Implementation Package in close consultation with a standing advisory group of business representatives.

In January 2013, the CFA approved the final [TRACE Implementation Package](#), a self-contained set of agreements and forms to be used by any country wishing to implement the Authorised Intermediary (AI) system. The AI system is a standardized system for claiming withholding tax relief at source on portfolio investments. It is designed to remove the administrative barriers affecting the ability of portfolio investors to effectively claim the reduced rates of withholding tax to which they are entitled pursuant to tax treaties or to the domestic law of the country of investment. It also minimizes administrative costs for all stakeholders and enhances the ability of both source and residence countries to ensure proper compliance with tax obligations.

The AI may file such reports electronically using the format developed by the OECD for these purposes. Once the information described is received by the source country, it is expected that the source country will provide it to the government of the investor's residence country through automatic exchange of information programs.

In 2019, Finland became the first country to introduce TRACE, incorporating it into Finnish law through the *Act on the Taxation of Nonresidents' Income*. The new rules will broadly take effect from 1 January 2021.

The TRACE XML Schema and User Guide

On 25 February 2020, the OECD released the standardized IT-format to support the reporting of information under the TRACE AI system for both businesses and tax administrations. The TRACE XML Schema is the electronic format to be used by AIs for complying with the reporting requirements of the source country and by source countries to exchange investor-specific information received from AIs with the countries of residence of the investors.

The TRACE User Guide explains the information required to be included in each TRACE data element to be reported in the TRACE XML Schema. It also contains guidance on how to make corrections of data items within a file that can be processed automatically. It contains the following parts:

- TRACE XML Schema User Guide
- TRACE XML Schema information

TRACE correction examples

The TRACE User Guide also contains two appendixes. Appendix A provides a diagrammatic representation of the TRACE XML Schema with all its elements. Appendix B contains a Glossary of namespaces¹ for the TRACE XML Schema.

Generic Status Message XML Schema and User Guide for Tax Administrations

The CTS was launched in 2017 as the first global bilateral exchange system and was designed to operationalize automatic exchanges of information in a transformative way. The cornerstone of the CTS is data security, with leading industry standards of encryption applied to each transmission.

The CTS currently supports the automatic exchange of Common Reporting Standard (CRS) information and Country-by-Country (CbC) Reports² and the Exchange of Tax Rulings (ETR)³ by over 100 jurisdictions. As a result of the development of the second version of the CTS, beginning in the autumn of 2020, tax administrations will be able to exchange a wide range of tax information with each other as the CTS will accommodate close to 30 agreed message types, including on-request exchanges, spontaneous

exchanges, TRACE, Mandatory Disclosure Rules (MDRs) on CRS Avoidance Arrangements and Opaque Offshore Structures,⁴ Mutual Agreement Procedures and assistance in tax collection.⁵

As the information to be provided through one of these message types and transmitted by means of the CTS may contain errors, the OECD on 25 February 2020 released the Generic Status Message XML Schema and User Guide for Tax Administrations. The Generic Status Message XML Schema allows Competent Authorities that have received any of the agreed new message types through the CTS to report back to the sending Competent Authority, conveying whether the file received contained any of the agreed file and/or record errors. If file errors are discovered, this will generally mean that the receiving Competent Authority is not in a position to open and use the file. Record errors address key issues of data quality with respect to the information received, but do not as such interfere with the receiving Competent Authority being able to open and use the file.

While the Generic Status Message XML Schema allows the provision of structured information to the sender of the initial message on any file and/or record errors, the Schema does not accommodate substantive follow-up requests or any type of qualitative feedback. For this type of input, Competent Authorities are advised to rely on the usual bilateral communication methods. Additionally, the Generic Status Message XML Schema should not be used for CRS, CbC reporting and ETR transmissions, as dedicated and more detailed Status Message XML Schemas exist for these message types.

The User Guide provides guidance on the use of the Generic Status Message XML Schema and further guidance on the file and record error codes to be used when populating the Generic Status Message XML Schema. The explanations in the User Guide are provided using a fictitious Schema

as an example for demonstration purposes, but the user guide clarifies that the same principles will apply for all the message types (exchanges on request, spontaneous exchanges, TRACE, MDR, etc.) which are using the Generic Status Message. The User Guide contains the following sections:

- Introduction
- Part A: Generic Status XML Schema information
- Part B: Generic Status Message Validations User Guide

Part A also contains two appendixes. Appendix A contains Generic Status XML Schema diagrams and appendix B a glossary of namespaces and frequently used terms.

Implications

TRACE is currently being implemented by Finland and, according to the OECD,⁶ other jurisdictions are interested in following suit. In light of this, the release by the OECD of a standardized IT-format to further support the reporting of information under the TRACE AI system is a positive development and may encourage more countries to introduce TRACE.

The use of the Generic Status Message XML Schema will improve the tax information exchanged through the CTS by allowing tax administrations to provide structured feedback to the sender on errors encountered.

The continued development of XML-based information exchange is an illustration of the ongoing digitalization of tax administrations. This trend will continue to have significant impacts on both the tax strategy and the day-to-day tax operations of groups. Impacted businesses are advised to review the OECD XML Schemas and associated User Guides and assess whether their release has any impact on ongoing reporting processes and associated technologies.

Endnotes

1. XML Namespaces is a mechanism to avoid name conflicts by differentiating elements or attributes within an XML document that may have identical names, but different definitions.
2. See EY Global Tax alert, [*OECD releases Country-by-Country reporting XML Schema and related User Guide*](#), dated 25 March 2016 and [*The Latest on BEPS*](#), dated 9 October 2017.
3. See [*The Latest on BEPS*](#), dated 18 July 2016 and the [*The Latest on BEPS*](#), dated 9 October 2017.
4. See EY Global Tax alert, [*OECD releases updated framework and multiple technology resources in relation to technology-driven exchange of certain taxpayer information*](#), dated 1 July 2019
5. See EY Global Tax alert, [*OECD releases additional guidance on spontaneous exchange of information by no or only nominal tax jurisdictions*](#), dated 7 November 2019 and EY Global Tax alert, [*OECD releases updated framework and multiple technology resources in relation to technology-driven exchange of certain taxpayer information*](#), dated 1 July 2019.
6. <https://www.oecd.org/tax/exchange-of-tax-information/oecd-releases-it-tools-to-support-the-implementation-of-trace-and-the-wider-exchange-of-tax-information.htm>.

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