



Glossary

Automatic Exchange of Information Entities

The definitions below are designed to support our Entity clients in understanding the terms used in our Self Certification forms. They are not designed to constitute advice and we encourage you to contact your tax adviser if you require further assistance with these definitions, or with completing your Self Certification form.

Active Non-Financial Entity (NFE)

The most common type of Active NFE is an Actively Trading Entity. 'Actively Trading' for FATCA and CRS Entity Classification is determined primarily based on income type, in particular looking at any Passive Income received by the Entity, rather than the activities undertaken by the Entity.

Other types of Active NFE can include the following, providing they meet certain conditions

- Non-profit organisations
- Governmental Entities
- International Organisations, and
- Companies that are listed on an established securities market (or their Related Entities).

Actively Trading Entity

The most common type of Active NFE that Coutts encounters. An Actively Trading Entity derives more than 50% of its gross income from an active trade or source (that is not Passive Income such as rents, royalties and investment income), and more than 50% of the assets held by the Actively Trading Entity cannot produce or be held for the production of Passive Income.

Bearer Shares

A share is considered a bearer share where the issuer retains no record of ownership and the shares are owned by the persons holding the physical share certificates.

Controlling Person

According to current HMRC guidance to improve international tax compliance, Controlling Persons are defined as natural persons who exercise control over an entity, interpreted in a manner consistent with the Recommendations of the Financial Action Task Force (FATF).

In applying the above, for most Entities, a Controlling Person* for the purposes of Self Certification is:

- any natural person who ultimately has a controlling ownership interest of 25% or more in the Entity (this proportion can vary);
- where no natural person exercises control through ownership interests, a Controlling Person of the Entity will be a natural person identified for anti-money laundering purposes who is a senior managing official (such as Director, Company Secretary, Managing Partner);
- where ownership is not explicit (eg Partnerships), ownership is presumed to be shared equally;
- any settlor, protector, trustee and beneficiary of a trust. Considering the nature of trusts, the beneficiaries we require information from is limited to those with a mandatory interest or a vested interest, and any other beneficiaries who we may be obliged to identify from time to time for anti money laundering purposes;
- any natural person with ultimate effective control over the Entity.

*When the Entity's FATCA Entity Classification is Owner Documented Financial Institution. In this instance a Controlling Person also includes *any* natural person holding any equity and/or debt interest in the Entity.

Certified Deemed Compliant Foreign Financial Institution

A Certified Deemed Compliant FFI means an FFI that has certified as to its status as a deemed compliant FFI by providing a withholding agent with the documentation applicable to the relevant deemed compliant category. A certified deemed compliant FFI is not required to register with the IRS.

Custodial Institution

A Custodial Institution is a Financial Institution which holds financial assets for the account of others as a substantial portion (at least 20% of the entity's gross income that is attributable to holding financial assets and providing related financial services) of its business.

Depository Institution

A Depository Institution is an institution that accepts deposits in the ordinary course of a banking or similar business.

FATCA/CRS Classification

The purpose of an Entity Classification is to determine whether either an Entity or its Controlling Persons will be reportable under FATCA or CRS. Entity Classifications can be complex and may differ between FATCA and CRS. As such we encourage you to seek advice from your tax adviser.

Financial Institution

A Financial Institution is defined as, a Depository Institution, Custodial Institution, Specified Insurance Company, Managed Investment Entity or Activity Based Investment Entity.

Financial Institution – Activity Based Investment Entity

An Investment Entity is an Entity that primarily conducts as a business one or more of the following activities or operations for or on behalf of a client:

- Trading in money market instruments (cheques, bills, certificates of deposit, derivatives, etc.), foreign exchange, interest rate and index instruments, transferable securities, or commodities futures trading;
- Individual and collective portfolio management; or
- Otherwise investing, administering, or managing Financial Assets or money on behalf of other persons.

Such activities or operations do not include rendering non-binding investment advice to a client.

Financial Institution – Managed Investment Entity

A Managed Investment Entity is an entity that is managed by another Financial Institution if the managing Entity performs, either directly or through another service provider, any of the above activities or operations (See Activity Based Investment Entity) on behalf of the managed Entity; and

At least 50% of the managed entity's income is attributable to investing, reinvesting or trading in financial assets in the shorter of:

- (i) The three year period ending on 31st December in the year preceding that in which its status as an investment entity is to be determined; or
- (ii) The period in which the entity has been in existence.

Examples of Entities which are managed by Financial Institutions include those with a fund manager or corporate trustee. An Entity can also be deemed to be managed by Coutts if it holds a discretionary managed product (such as Coutts Tailored Portfolio Service).

GIIN (Global Intermediary Identification Number)

A 19-character identification number issued to Financial Institutions who register online with the US Internal Revenue Service for FATCA purposes.

Owner documented Financial Institution

A concept under FATCA which allows one Financial Institution to report information on behalf of another Financial Institution. Typically, this classification applies to Private Investment Companies and Trusts which are Financial Institutions due to the nature of their investment management relationship with Coutts, and/or other Financial Institutions. In these instances, Coutts is able to report US persons under FATCA on behalf of the Entity, providing certain declarations and disclosures are made. Reporting is only undertaken by Coutts in relation to the accounts held with Coutts. It is the Owner Documented Financial Institution's responsibility to ensure reporting is undertaken for accounts held elsewhere. No equivalent concept exists under CRS.

Passive NFE

A passive NFE is any NFE that is not an Active NFE. This is most commonly seen where the majority of either its income, or the assets it holds for the production of income, is passive. Please also see the definition of Passive Income.

Under CRS a Passive NFE includes an Investment Entity which is Managed by a Financial Institution and not located in a CRS Participating Jurisdiction.

Passive Income

As the term suggests, passive income is derived from investing in assets rather than from activities carried on in the normal course of a trade or business. Passive income generally includes, but is not limited to; dividends, interest, property rents, royalties and gains from the sale or exchange of property that gives rise to passive income.

Where the income described above is received by a NFE and is accounted for, or is taxable as, income from trading activities it should not be included in gross income as passive income.

Specified Insurance Company

An Insurance Company will be treated as a Specified Insurance Company only when it writes or manufactures cash value insurance or annuity contracts, or if payments are made with respect to such contracts.

Tax Avoidance

Tax Avoidance involves bending the rules of the tax system to gain a tax advantage that the relevant legislator never intended. It often involves contrived, artificial transactions that serve little or no purpose other than to produce a tax advantage. It involves operating within the letter, but not the spirit, of the law. In the United Kingdom Tax Avoidance schemes must be registered with His Majesty's Revenue & Customs (HMRC). Users must notify HMRC of their participation in such schemes and must provide the Scheme Reference Number on their tax return.

Tax Number (including 'functional equivalent')

A unique combination of letters and/or numbers assigned by a jurisdiction to a tax resident for the purpose of administering the tax laws of such jurisdiction. For UK entities, this will be the Unique Tax Reference which is made up of 10 digits and can be found on documentation issued by HMRC such as the Tax Return, Notice to Complete a Tax Return or a Statement of Account.

Tax Residence

The definition of Tax Residence can be complex and varies from country to country. In general, this will be the countries in which an individual or Entity may be deemed resident, based on the Tax Residence rules for those countries. Where our clients are unsure about their Tax Residence, we strongly recommend they speak with a professional tax adviser.

For Automatic Exchange of Information purposes a trust will generally be considered resident in the country in which one or more of its trustees are resident.

Undeclared Tax Liabilities

Tax due under applicable tax law which was not paid and reported by the due date to the relevant tax authority.

US Person

Any United States (US) citizen or resident, any partnership or corporation created or organised in the United States or under Federal or State US Law, any US estate, any US trust or any non-US insurance company that has elected to be treated as a US corporation.

A Trust is considered a US Person for tax purposes where a US court would have authority to render orders or judgements concerning the administration of the Trust and one or more US Persons have the authority to control all substantial decisions of the Trust.

This document is based on our understanding of the current tax law and practice and is not intended to constitute definitive tax advice.

If you would like this document in another format such as Braille, large print or audio, please let us know.