The FASTER Directive

What it means for Banks, Tax Authorities, Investors and Technology Providers

The EU Council has taken a major step to enhance the efficiency and security of cross-border investments by agreeing on a new tax directive aimed at expediting and safeguarding double taxation relief for investors. Known as the Faster and Safer Relief of Excess Withholding Taxes (FASTER) directive, this initiative is set to boost capital market functionality within the EU and combat tax fraud. This article draws the conclusions from the perspective of banks, tax authorities, investors, and tax technology providers, examining how the FASTER directive aims to revolutionize cross-border investment and enhance the EU's tax landscape.

Financial Industry: A Digital Transformation Imperative

For the financial industry, the FASTER directive mandates a massive investment in digital transformation. Here's why:

Enhanced reporting requirements: Banks will need to significantly upgrade their data strategies, focusing on data generation, segmentation, and storage to meet new standardized reporting standards (a current illustrative example is the MiKaDiv guideline in Germany).

Efficient information flow: Investment in data and document transfer mechanisms within the custody chain is crucial to ensure seamless information flows and compliance with the new standards.

E-Filing standards: As tax authorities increasingly expect electronic submission of documents, forms, and applications, banks will need to invest in robust e-filing systems.

Increased processing costs: With the overall processing cost for banks set to rise, enhancing productivity through automation in other elements of withholding tax handling becomes essential to manage cost pressures effectively.

Potential sanctions: Certified Financial Intermediaries failing to comply with FASTER Guidelines will face potential severe penalties and fines.

Tax Authorities: Boosting market attractiveness and reducing fraud

FASTER provides a significant opportunity for tax authorities to improve market attractiveness and reduce the risk of tax fraud. Key steps include:

Investments in data management: To handle the massive volume of reported data, tax authorities should invest in advanced big data strategies, tools, and staff, enabling quick and effective detection of tax abuse or fraud.

Digital transformation: The issuance of a common tax residence certificate (eTRC) will require tax authorities to rethink offline processes and implement digital application and data transfer pathways.

Enhanced productivity: To comply with the quick refund timing standards, tax authorities will need to shorten processing times, thus boosting overall productivity.

Relief at Source: Governments and tax authorities will be motivated to offer more relief at source options to attract investors and enhance market appeal.

Investors: Faster, but with hurdles to overcome

For investors, the FASTER Directive will streamline the process. However, there will be exemptions and opt-outs complicating the execution.

Banking-centric process: Due to strict and comprehensive reporting requirements, the process will become more banking-centric, reducing the likelihood of investors managing withholding tax independently.

Quicker applications: With eTRCs obtainable within hours instead of weeks, the application process will be significantly faster.

Accelerated filing: More tax authorities offering e-filing options will further speed up the process.

Swift refunds: Fixed timelines (90 days) for refunds and the imposition of late payment interest will ensure quicker refund processing.

Opt-out Risks: Some countries are required to participate, but others might opt out. Therefore, old mechanisms will still be in force. Further complicating the process will be the challenge of reducing the tax rate below the treaty rates (e.g., European Court of Justice claims).

Technology providers: Seizing the opportunity

Technology providers, such as RAQUEST, have a pivotal role to play in the FASTER directive ecosystem:

Comprehensive solutions: Offering a FASTER Product Suite including quick refunds, relief at source, reporting, and tax data transfer mechanisms will be crucial.

Gateway expansion: Developing gateways that aggregate interfaces to tax authorities will enable plug-and-play connectivity for financial institutions, facilitating reclaim, reporting, and eTRC handling.

Data utilization: Leveraging collected and processed data for applications such as business intelligence, analytics, and potentially artificial intelligence will add significant value.

Conclusion

Facing similar hurdles to previous endeavors such as Giovannini in the EU, FASTER will ultimately be judged by how widely it is adopted. The coming years will determine how unified the European Union is; however, without doubt, FASTER will transform the financial industry. RAQUEST provides 100% commitment through advocacy, Thought Leadership, and implementation, creating a digital product suite for all withholding tax processes. This enables the digitization and streamlining of internal processes, making them as cost-efficient as possible and protecting against potential liability issues.

RAQUEST

About RAQUEST

RAQUEST is a leading Fintech company specializing in withholding tax management for financial institutions. As part of the Halvotec Group, RAQUEST has been providing innovative software solutions for efficient withholding tax processing for more than 15 years. The modular B2B software supports all common tax relief procedures and navigates complex, global tax landscapes. With a broad and international client portfolio RAQUEST has established itself as a market leader in withholding tax processing. The company is a member of key industry associations and is strategically guided by a high-profile advisory board. RAQUEST enables financial institutions to meet regulatory requirements, increase efficiency, and reduce costs while maximizing investor returns.

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