



Country-by-Country Report Webinar

Speakers

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Poll 1



Country by Country Report (CbCR)

Introduction



Country by Country Report - OECD

Action 13 of the OECD/G20 BEPS project 'Guidance on Transfer Pricing Documentation and Country by Country Reporting proposes to enhance transparency for tax administrations and contains revised standards for transfer pricing documentation. It consists of three layers of documentation:

- A global Masterfile for transfer pricing;
- A local transfer pricing documentation file;
- A Country-by-Country reporting.

CbCR is triggered when the total consolidated group revenue of an MNE Group is equal or more than 750 million Euro (or near equivalent amount in local currency as of January 2015),

- All of the revenue that is (or would be) reflected in the consolidated financial statements should be used. (Including extraordinary income and gains from investment activities.
- Other jurisdictions require Notification of CbCR status on a yearly basis through filing of forms (ie. Argentina, Chile and Colombia)



CbCR Rationale and Risk Assessment by Tax Authorities



Potential Tax risk indicators that may be detected by a CbC Report

- The footprint of a group in a jurisdiction
- There is a high value or high proportion of related party revenues in a particular jurisdiction
- The results in a jurisdiction deviate from potential comparables
- The results in a jurisdiction do not reflect market trends
- Jurisdictions with significant profits but little substantial activity
- Jurisdictions with significant profits but low levels of tax accrued
- Jurisdictions with significant activities but low levels of profit or losses
- Activities in blacklisted jurisdictions



Potential Tax risk indicators that may be detected by a CbC Report

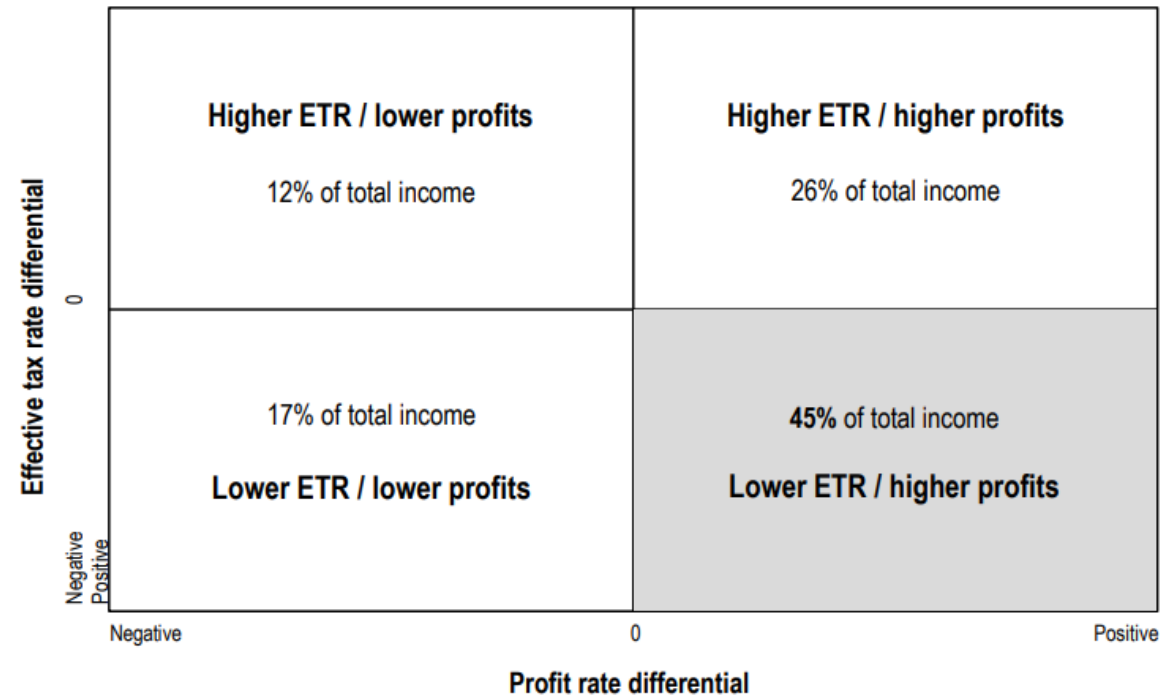
- Activities located in jurisdictions where the group pays a lower rate or level of tax
- There have been changes in the group's structure and location of assets
- IP is separated from related activities within a group
- A group has marketing entities located in jurisdictions outside its key markets
- A group has procurement entities located in jurisdictions outside its key manufacturing locations
- A group includes dual-resident entities
- A group includes entities with no tax residence
- A group discloses stateless revenues in Table 1
- Information in a group's CbC Report does not correspond with information previously provided by a constituent entity.



Tax risk assessment

CbCR information is a powerful tool in the hands of a tax administration and provides indicators for tax authorities to identify possible BEPS red flags in their jurisdiction.

For example:





Poll 2

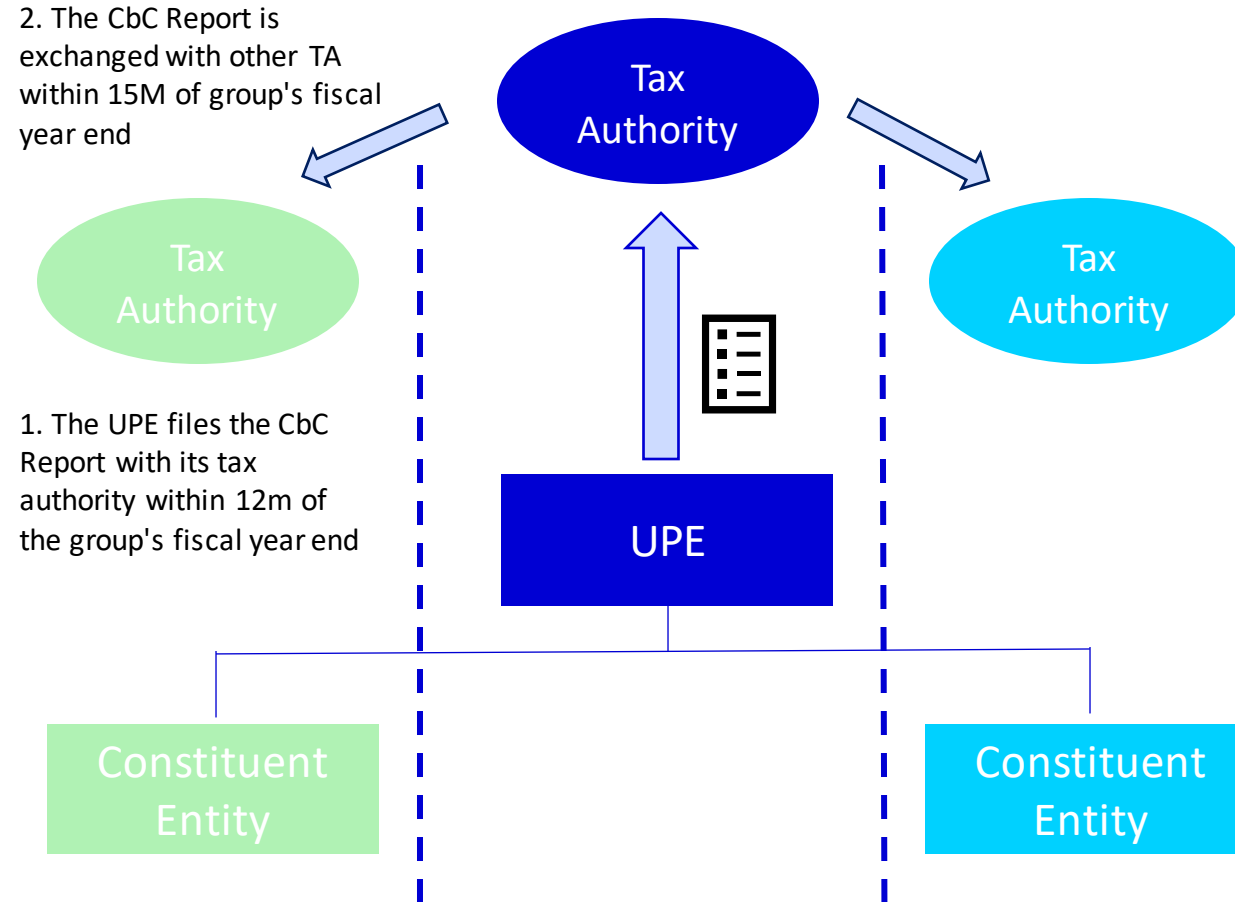




— CbCR Reporting / Filing Process

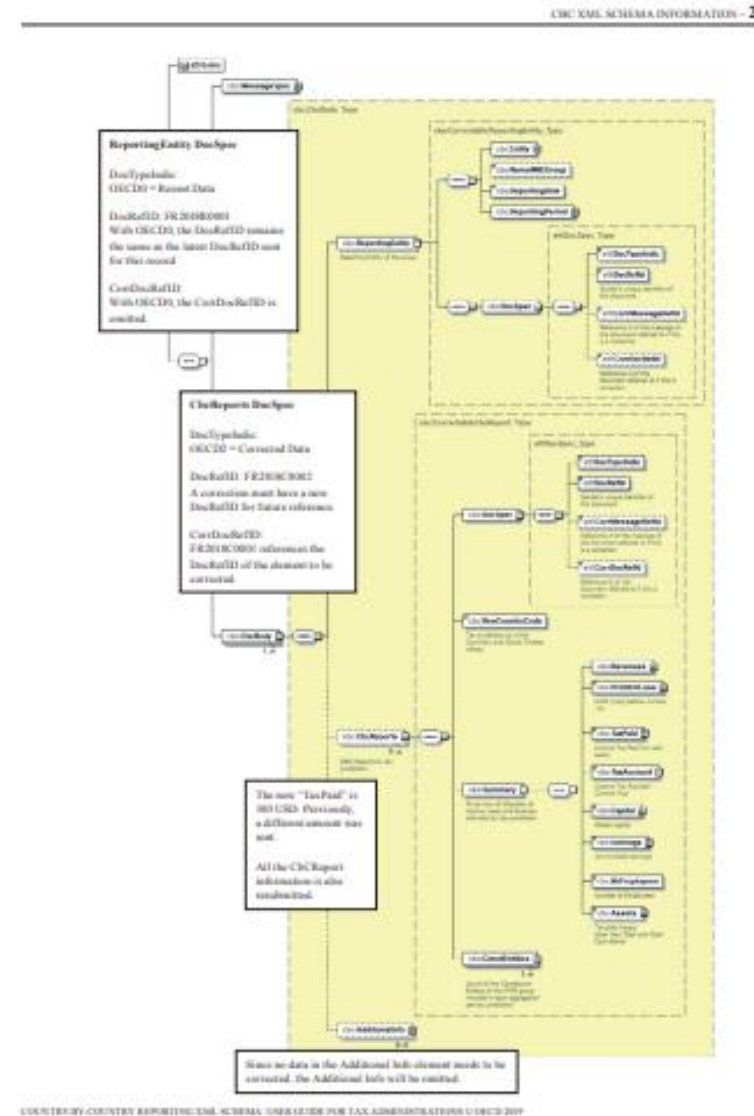
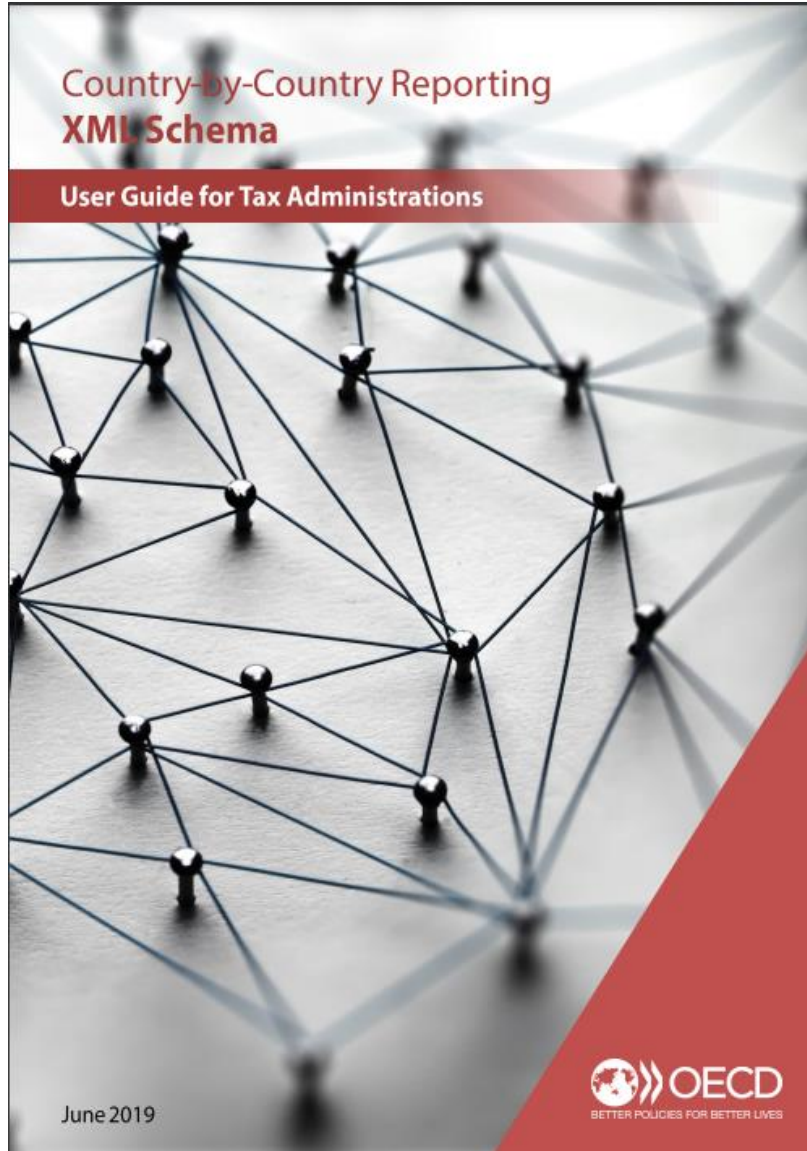


Electronic template using XML



Format: An electronic template using extensible mark-up language (an XML schema) has been developed to facilitate the electronic preparation, filing and exchange of CbC Reports. This should further ensure that CbC Reports are prepared consistently and support the automated analysis of CbCR information, for example by requiring that jurisdictions be identified using standard two-digit ISO country codes which will avoid challenges that could arise if groups included the names of jurisdictions in different languages or using different spellings.

OECD Guidance on XML Schema





Country by Country model report sections

- **Table 1** – Overview of allocation of income, taxes and business activities by tax jurisdiction
- **Table 2** – List of all the Constituent Entities of the MNE group included in each aggregation per tax jurisdiction
- **Table 3** – Additional information
- CBCR Specific Instructions
- Source of Data



Definition of Constituent Entities

Constituent entities for the purpose of CbC reporting means:

- (i) any separate business unit of an MNE Group that is included in the Consolidated Financial Statements of the MNE Group for financial reporting purposes, or would be so included if equity interests in such business unit of an MNE Group were traded on a public securities exchange;
- (ii) any such business unit that is excluded from the MNE Group's Consolidated Financial Statements solely on size or materiality grounds.



Table 1 - Overview of allocation of income, taxes and business activities by tax jurisdiction

Name of the MNE group: Fiscal year concerned:										
Tax Jurisdiction	Revenues			Profit (Loss) Before Income Tax	Income Tax Paid (on cash basis)	Income Tax Accrued – Current Year	Stated capital	Accumulated earnings	Number of Employees	Tangible Assets other than Cash and Cash Equivalents
	Unrelated Party (GL Codes)	Related Party (GL Codes)	Total							

Source: CbC report instructions manual by TPA

*For convenience and consistency, the table contains a list of 12 common activities, including "dormant", as well as "other".



Table 3 - Additional information

Name of the MNE group:

Fiscal year concerned:

Please include any further brief information of explanation you consider necessary or that would facilitate the understanding of the compulsory information provided in the Country-by-Country report.

Source: CbC Report instructions manual by TPA

*This table allows MNE groups to provide additional information to clarify the content of the CbC Report. In order to ensure that its CbC Report can be interpreted as accurately as possible, a group should provide a brief description of the sources of data used in completing Table 1 as well as anything else that it thinks will be useful to assist a tax authority in correctly interpreting the first two tables.



Table 2 - List of all the Constituent Entities of the MNE group included in each aggregation per tax jurisdiction

Name of the MNE group: Fiscal year concerned:														
Tax Jurisdiction	Constituent Entities resident in the Tax Jurisdiction	Tax Jurisdiction of organisation or incorporation if different from Tax Jurisdiction of Residence	Main business activity(ies)											
			Research and Development	Holding or Managing intellectual property	Purchasing or Procurement	Manufacturing or Production	Sales, Marketing or Distribution	Administrative, Management or Support Services	Provision of Services to unrelated parties	Internal Group Finance	Regulated Financial Services	Insurance	Holding shares or other equity instruments	Dormant
	1.													
	2.													
	3.													
	4.													
	1.													
	2.													
	3.													
	4.													



Table 3 - CbCR Specific instructions (General Information)

#	Entity name	Description
1	Reporting MNE	HoldCo. Ltd.
2	Reporting Jurisdiction	NL
3	Accounting standards	IFRS/US GAAP, etc.
4	Source of data	SAP/Oracle, etc.
5	Level of data	Internal structure
6	Reporting currency	USD, EUR, etc.
7	Period covered by the annual template	2022

Source: CbC Report instructions manual by TPA



Table 3 - Source of data for CbCR reporting

#	Source of data	Description of data points
Table 1		
1	ORACLE HFM/SAP-HANA	...
2
Table 2		
3	TP Masterfile	...
4
Table 3		
5	Central Bank website, etc.	Average annual exchange rates
6	CbCR instructions manual	Brief description of data sources used to prepare CbC Report
7	Finance/ IT team	Brief explanation of changes made in the source of data used from year to year to prepare CbC report
8

Source: CbC Report instructions manual by TPA



Roles and responsibilities for CbCR data completion

#	Activity	Responsible party		
		Table 1	Table 2	Table 3
1	Collection and retrieval of data points defined by CbC reporting	Finance/ IT	TP/ Tax	Mainly Finance/ IT
2	Sign off on integrity of data points used in populating the CbC report	Finance/ IT	TP/ Tax	Mainly Finance/ IT
3	Risk management analysis on quarterly/ annual CbC report	TP/ Tax	TP/ Tax	TP/ Tax
4	Compiled CbC report disclosure and communication to external stakeholders, e.g. tax authorities	TP/ Tax	TP/ Tax	TP/ Tax

Source: CbC Report instructions manual by TPA



— CbCR Reporting / Other Challenges



Other challenges

1. Who is the Ultimate Parent Entity (UPE)?

- a) **Example:** Aco, the UPE of an MNE is a stock-listed company where a group of related companies have an interest of over 50%.
- b) **Example 2:** JV arrangements between two different MNE groups, where each group owns 50% of the shares in the JV, also raise the question of which MNE group the JV belongs to (and therefore who its UPE is).

2. Reporting financial information in Table 1 of the CbC report -Consolidated financial statements or separate entity financial accounts?

3. Reporting revenue – gross or net?

4. Potential tax risks

- c) **Example:** An overstatement/understatement of revenue lines
- d) **Example:** Lack of consistency for Groups reporting for the first time

5. Does the profit (loss) before income tax in Table 1 include payments received from other Constituent Entities that are treated as dividends in the payer's tax jurisdiction?

6. Are Investment Funds exempt?



Conclusion of CbCR by OECD

The Country-by-Country report requires aggregate tax jurisdiction-wide information relating to the global allocation of income, the taxes paid, and certain indicators of the location of economic activity among tax jurisdictions in which the MNE group operates;

The report also requires a listing of all the Constituent Entities for which financial information is reported, including the tax jurisdiction of incorporation, where different from the tax jurisdiction of residence, as well as the nature of the main business activities carried out by that Constituent Entity;

The Country-by-Country report will be helpful for high-level transfer pricing risk assessment purposes;

Country-by-country report on its own does not constitute conclusive evidence that transfer prices are or are not appropriate. It should not be used by tax administrations to propose transfer pricing adjustments based on a global formulary apportionment of income.



Public CbCR



EU steps toward CbCR: related directives





EU steps toward CbCR: (Bird-eye view)

The public country-by-country reporting (CbCR) directive came into force on 21 December 2021.

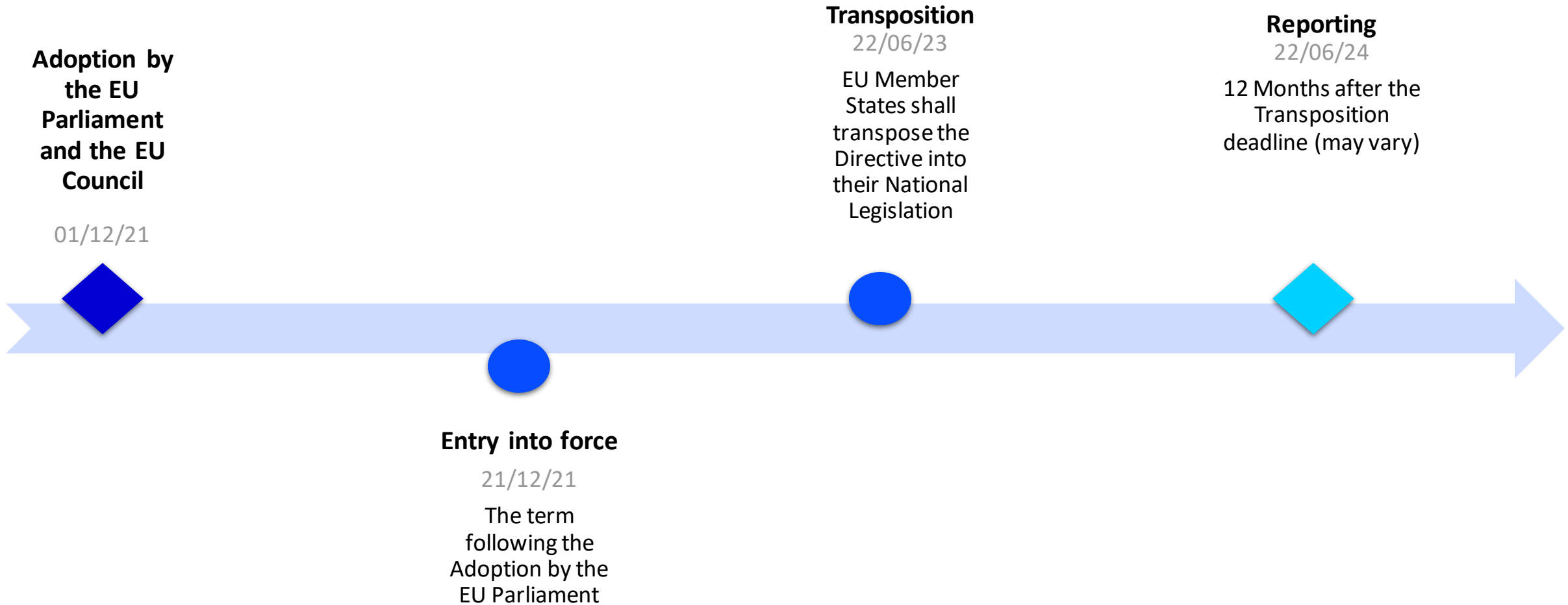
Member States had the until 22 June 2023 to transpose the directive into national legislation, however full implementation by all Countries has not been reached.

The directive requires both EU-based multinational enterprises (MNEs) and non-EU based MNEs operating in the EU with annual revenue of over €750 million to disclose income taxes paid and other tax-related information for each country they operate in.

This information must be disclosed for all EU Member States and jurisdictions on the EU black and gray lists. Aggregated data is sufficient for other jurisdictions. The directive is based on the OECD/G20 BEPS standards but goes beyond them by requiring large MNEs and stand-alone undertakings in the EU to publicly disclose income tax information on a public register and their website.



EU Directive Timeline



SCOPE Art. 48b EU-Based



Definition	Specifications
<u>EU-Based</u>	a) HQ in EU Territory (Incorporated) if Group b) Standalone Undertaking
€750M consolidated global <u>revenue</u> threshold	<p>Revenue: <i>“defined by or within the meaning of the financial reporting framework on the basis of which the financial statements are prepared”</i></p> <p>Net Turnover – same meaning as revenue, if the EU MS does not apply IFRS</p>
Threshold hit in the last <u>two FY</u>	750M or equivalent should be reflected as reported in the consolidated financial statements for the two consecutive financial years



SCOPE Art. 48b Non-EU Based

Definition	Specifications	
<u>Non-EU-Based</u>	HQ located outside EU	
Controlling: 1) <u>Medium Sized</u> or <u>Large Subsidiary</u> in a MS or	<u>Med. Sized (does not exceeds 2/3 below):</u> <ul style="list-style-type: none"> • < 250 Employees, • < BS Total 20M • < Net Turnover 40M 	<u>Large Sized (exceeds 2/3):</u> <ul style="list-style-type: none"> • + 250 Employees, • + BS Total 20M • + Net Turnover 40M
2) <u>Qualifying Branch</u>	Subsidiary of a non-EU undertaking having their <i>fixed place of business</i> or <i>permanent business activity</i> in the EU Territory	
€750M consolidated global <u>revenue</u> threshold	n/a	



Disclosure Obligation

Reporting Entity

- **Ultimate Parent EU-Based (If Group) / Standalone Entity.**
- **Qualified EU Entity (subsidiary/branch) of non-EU based undertakings**

Reporting Obligation

- **EU Based**: the Ultimate Parent is obliged to report
- **Non-EU Based**: each of the qualified entity present in EU (subsidiary/branch), must publish tax information of the Ultimate Parent.

Procedure

- Public Disclosure on the undertakings website and filing in relevant commercial/trade registry.
- Alternative (only non-EU based): the HQ located outside EU can publish on its own website and delegate the filing to each of related entity in EU



SCOPE Art. 48b Exemptions

Subject	Specifications
<p>Ultimate Parent Companies/Standalone entities falling under Art.s 1- 3 Capital Requirements Directive, among which:</p> <ul style="list-style-type: none">▪ Credit Institutions▪ Investment Firms▪ Insurance Firms	<p>These subjects are required to disclose certain information under Directive 2013/36 (Capital Requirements Directive) already as CbCR</p>



Aggregation of Data

Data reported should be at group level, but on different basis basis:

- separately for each Member State;
- separately for each jurisdiction included on the EU list of non-cooperative jurisdictions
- separately for each jurisdiction included on the “Grey List” for two consecutive years;
- aggregated for the rest of the world.



Art. 48c - Disclosure Components

Information to be disclosed:

- Name of the ultimate parent undertaking or the standalone undertaking, the financial year concerned, and the currency used
- Nature of the activities
- Number of employees
- Total net turnover made
- Profit made before tax
- Amount of income tax due in the country by reason of the profits made in the current year in that country
- Amount of tax actually paid during that year
- Accumulated earnings

Thank you!



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