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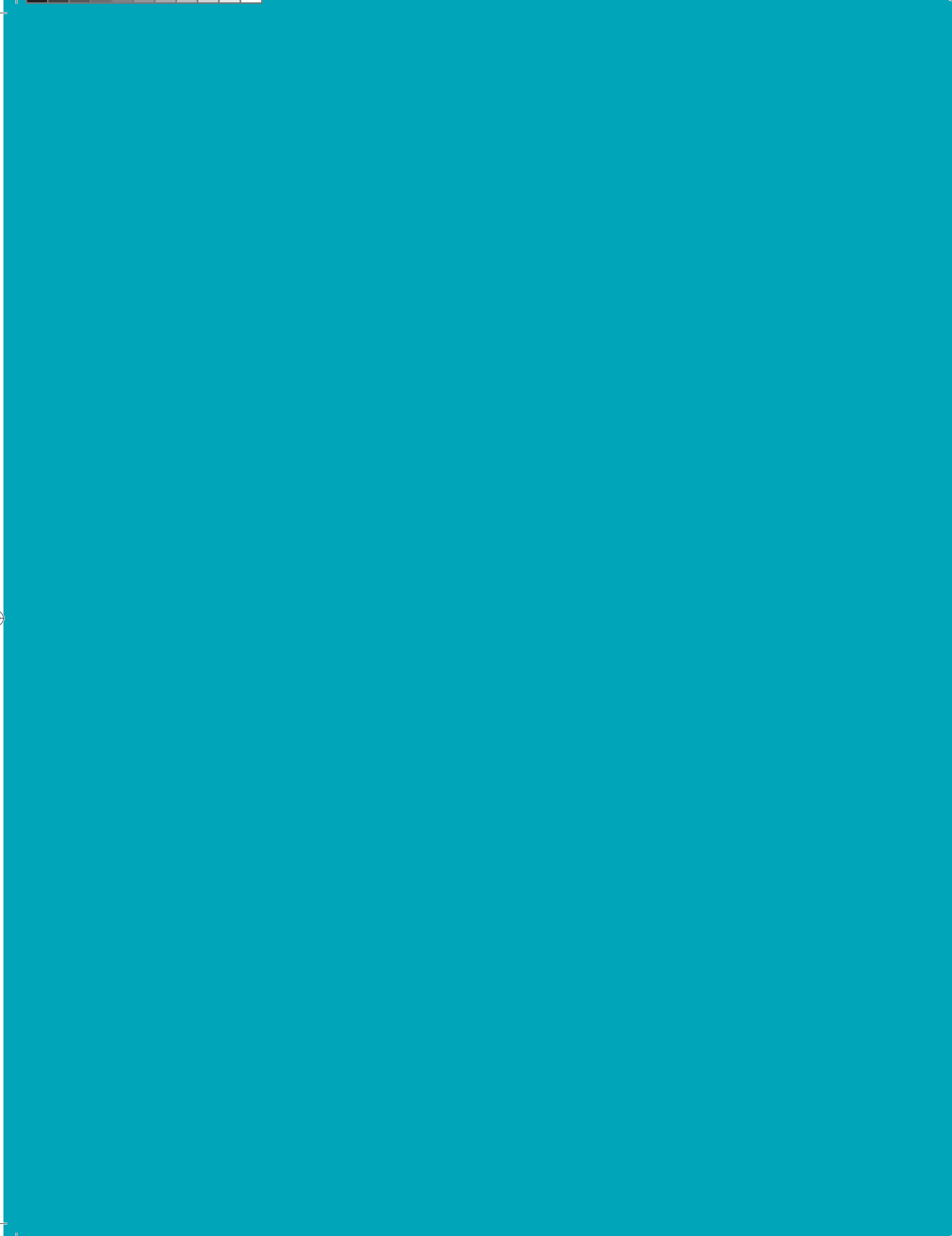
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## Country-by-Country Reporting The FAQs September 2016



# Taking action

Start planning and run simulations on 2013, 2014, and 2015 data now. It is only when you have gathered the required data and created the reports that you can truly analyze what impact CbCR is going to have on your organization and how this might reflect on the effective tax rate (ETR). Taking these steps will help your business understand the new challenges CbCR may bring and will provide you time to adequately plan how to manage the new demands CbCR may place on your organization.

The goal is to keep your business tax compliant and manage your ETR. Since CbCR will likely have a cascading impact on your organization's strategic choices and possibly your business model additional information and perspective will be a valuable driver of future decisions.

Can your company produce a CbC report today? Do you have the information you need to comply with CbCR? Are the data aggregation processes you need in place? Country by Country Reporting is here—are you ready?

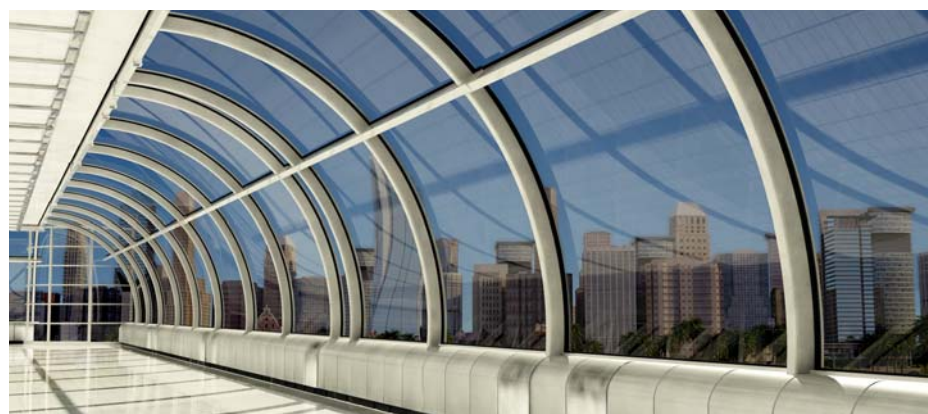


# The reset landscape

There is a Global Tax Reset underway. The confluence of the OECD's actions relating to Base Erosion & Profit Shifting (BEPS) combined with unilateral country legislation, increased sharing of information between tax authorities in different countries, and the pressure on governments to address high levels of sovereign debt are culminating in sweeping changes to tax laws and treaties. This is triggering a widespread Global Tax Reset for businesses with worldwide operations.

The scope of the OECD's activities is broad and sweeping. It includes 15 actions and seeks to cover nearly every aspect of global business. One of the cornerstones of the new global tax paradigm is a Country by Country Reporting (CbCR) requirement that is detailed in Action 13 of the OECD's guidelines.

This perspective paper aggregates frequently asked questions by business leaders about CbCR and is intended to help companies understand what CbCR is, what information is needed, who CbCR applies to, and how businesses can prepare.



## The basics

### **Who will be subject to CbCR?**

CbCR applies to multinational companies (MNCs) with a combined revenue of euros 750 million or more.

### **What is CbCR and what is a CbC report?**

Country-by-Country Reporting (CbCR) is part of the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan 13. In essence, large multinationals have to provide an annual return, the CbC report, that breaks down key elements of the financial statements by jurisdiction. A CbC report provides local tax authorities visibility to revenue, income, tax paid and accrued, employment, capital, retained earnings, tangible assets and activities.

### **When will CbCR be implemented?**

It depends on when countries implement CbCR within their individual legal systems. Some countries have already implemented the CbC report for the fiscal years starting on or after the 1 January 2016. In these instances, CbCR should be filed within 12 months of the relevant year end.

### **When will CbC reports need to be filed?**

CbC reports will need to be filed 12 months after the fiscal year has ended, starting with the first financial year starting after 1 January 2016.

### **Where is a CbC report filed?**

CbC reports are primarily to be filed where the parent company is headquartered (HQ). If the HQ country has not implemented CbCR, MNCs should appoint a surrogate parent entity who will take care of the filing.

### **Why are CbC reports needed?**

CbCR provides tax authorities information to help them assess transfer pricing risks and make determinations on how they allocate tax audit resources.

### **Are there other trends emerging?**

Additional reporting obligations are being implemented in both the banking and extractive industries sectors. Other sectors may follow. In addition, some jurisdictions have had initial discussions to consider obligatory public disclosure of CbCR requirements for MNCs (such as the proposal for EU CbCR).

## What strategic opportunities stem from CbCR compliance requirements?

Using tax data analytics, business leaders can extract new organizational insights and correlations from CbCR data which can be leveraged in strategic planning purposes.

# Automation

What is the preferred approach to data aggregation?

A preferred approach is Record-to-Report which relies on automated processes and integrated technology solutions. Companies are frequently able to pull data that already resides in existing financial systems. Software is available to help businesses with the data collection process.

In developing an efficient protocol that utilizes automated data extraction to the greatest extent possible, companies should begin by identifying what data is already available in their IT environment and then perform a gap analysis to determine what information is missing.

A framework to help identify key challenges in CbCR automation from input, to processing, to output.

## Sourcing and generating data

- Determine what information is needed
- Locate requisite data across corporate systems
- Find data concerning intragroup transactions
- Enhance data quality via cleansing
- Select an organizational approach to help manage the volume of data
- Standardize figure definitions across jurisdictions
- Obtain tax figures from systems containing commercial figures
- Establish routine processes to efficiently collect data on a regular basis
- Plan around closing periods to help avoid capacity issues and added time pressures

## Data collection, calculation, and consolidation

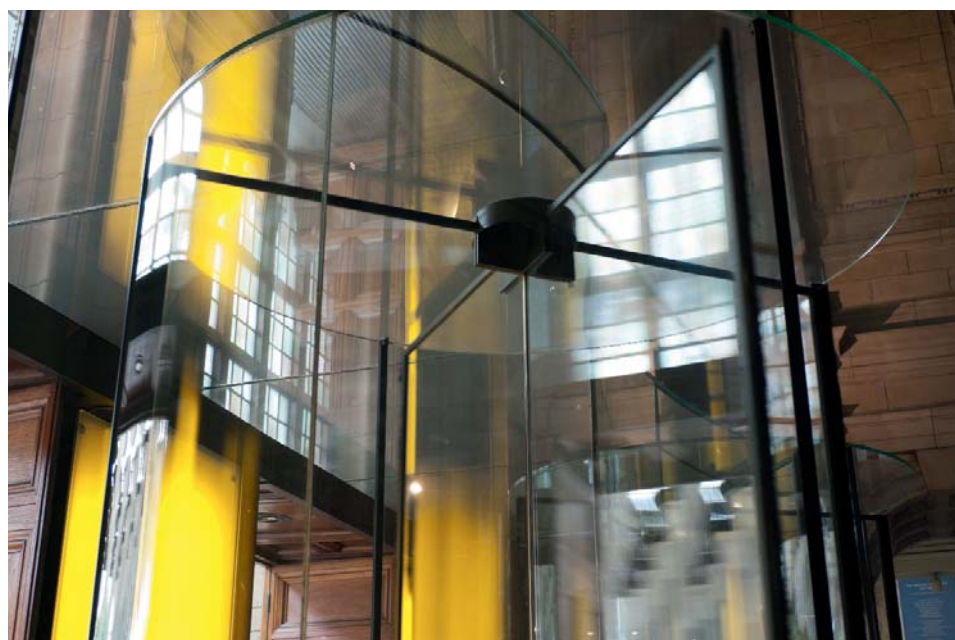
- Aggregate relevant data from identified sources
- Adjust or enrich the collected data
- Identify requisite additional calculations
- Consolidate figures (where applicable)
- Apply analytics to manage and assess tax positions
- Manage the connected workflows and processes

## Reporting

- Identify requirements for CbC reports
- Identify data needed for tax management purposes
  - Calculate and report the relevant ratios
  - Validate that the level of detail meets regulatory requirements
  - Establish requisite disclosures to the tax authorities

# When should businesses begin taking action?

As soon as possible, businesses should gauge readiness to collecting and aggregating the data needed under new CbCR requirements.



## The approach

### **What can businesses do to prepare for CbCR?**

Businesses should assess how they will gather required data from disparate sources and what technology is best suited to help their organization input the data and create the required reports. Many companies are starting with simulations on their 2013, 2014, and 2015 data to assess their ability to comply and to gain an understanding of how their reports might be viewed by different stakeholders. Tools like Deloitte CbC Digital Exchange (CDX) are designed to help with these types of activities.

### **How should data be gathered?**

There is no specific requirement on how data is collected but bear in mind that the combined group information needs to be consolidated into one report so to the extent data collection can be standardized this will assist efficiency. Collecting the data can be achieved via various methods, including consolidation systems, MS Office software (Excel, SharePoint), etc.

### **How should businesses approach CbCR?**

There is no one best way to approach CbCR. Business models, operating strategies and the geographic spread of multinational businesses varies widely from organization to organization. Businesses will need to develop a plan that makes sense based on your individual fact pattern and circumstances. The approach below highlights four key steps in the process and may be helpful as you begin internal discussions with stakeholders.

## Can businesses automate the CbCR process?

A well planned, technology-enabled approach can help businesses to automate an end-to-end CbCR reporting process as well as enhance organizational efficiencies.

# What are the steps for data aggregation?

There are essentially two stages: *assessing* the current state and *developing and implementing the plan*.

## Assess

### Validate

Generate an overview of current systems, tooling, data, processes, and people.

### Define requirements

Identify and formulate data requirements. Determine internal and external users and stakeholders. Perform fit/gap analysis on an as-is situation and to-be situation.

## Develop & implement

### Design

Design data collection process/schedules and select system solution. Resolve missing data elements where necessary. Based on the fit/gap analysis, develop a project plan and define specifications for new systems, tooling, training, and processes.

### Build

Develop new systems, tooling, materials, and process documentation.

### Roll-out

Implement completed systems, tooling, materials, and processes (including training, communications, documentation, etc.)



### 1. Strategy

- Single year vs. annual compliance process
- Outsourcing options
- Use of technology
- Confirmation of the definitions, scoping, and technical interpretations
- Assignment of roles and responsibilities



### 2. Data Collection

- Identification and finalization of data sources to be used
- GAAP selection and extent of reconciliation to be considered
- Automation of data collection process
- Key control points selection



### 3. Impact assessment

- Ascertain key ratios and other indicators for risk tracking and comparison with relevant benchmarks
- Determine if adjustments are required (not only in CbCR filing but regarding overall business model and strategy)
- Alignment with Local TP files



### 4. Filing

- Assess practicalities around filing CbCR files with tax authorities
- Consider local specifications expected to be released by tax authorities
- Final review and filing

# How much time will it take to implement a data solution?

Setting up a system and well-planned data aggregation process takes time. In our experience it can typically take companies between 6-9 months to implement a centralized data collection process if one did not previously exist.



## Data aggregation

### Data aggregation

How difficult will data aggregation be? CbCR relies heavily on data. The step that is likely to consume the most time will be data aggregation. Data collection requires a standard, centralized method in which all stakeholders have the same understanding of their role in the process and of the definition and parameters governing the data being requested. Currently there are varying interpretations of the definitions for some of the CbCR information being requested. This could lead to data integrity concerns and uncertainty if you do not clarify definitions upfront with all stakeholders before beginning the data aggregation process. Do not allow this type of uncertainty to dissuade you from getting started. Where ambiguity exists most companies are opting to rely upon their own existing, internal definitions. You can successfully implement a centralized data aggregation model as long as all parties within your organization adopt the same definitions consistently.

Additional challenges that businesses often confront are data quality and risk exposure of the information reported to tax authorities.

Data collection may be more challenging for organizations that operate decentralized business models and those that have grown by mergers and acquisitions over the years and who have not fully integrated their technology systems as they grew.