

IMPLEMENTATION OF “COUNTRY-BY-COUNTRY REPORTING” INTO INTERNAL RULES AND PROCEDURES

**By Subgroup 3 of the IOTA Forum
on Implementation of Measures to
Counter Base Erosion and Profit
Shifting (BEPS)**

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IOTA

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Abbreviations and Acronyms

BCAA – Bilateral Competent Authority Agreement
BEPS – Base Erosion and Profit Shifting
CbC – Country-by-Country
CE – Constituent Entity
CCN – Common Communication Network
CTS – Common Transmission System
CSV – Comma Separated Value
DAC – Directive on Administrative Cooperation
DTA – Double Taxation Agreement
IOTA – Intra-European Organisation of Tax Administrations
MAC - Convention on Mutual Administrative Assistance in Tax Matters
MCAA – Multilateral Competent Authority Agreement
MNE – Multinational Enterprise
OECD – Organisation for Economic Co-operation and Development
PDF – Portable Document Format
PE – Permanent Establishment
TIEA – Tax Information Exchange Agreement
UPE – Ultimate Parent Entity
XML – Extensible Mark-up Language
XSD - XML Schema Definition

Foreword

Dear Readers,

The IOTA Forum on Implementation of Measures to Counter Base Erosion and Profit Shifting (BEPS) was created in 2018 to provide a platform for sharing knowledge and experiences and identifying best practices among IOTA member tax administrations in the practical implementation of the OECD/G20 BEPS Action Plan.

Within the scope of the Mandate for 2018-2019, the work of the IOTA Forum focused primarily on specific aspects of the four minimum standards (harmful tax practices, tax treaty abuse, country-by-country reporting, dispute resolution). To supplement the Forum's activities, several specialised subgroups were established with the overall objective of bringing expertise to examine in depth and report on specific topics of the BEPS Action Plan implementation.

Subgroup 3 of the IOTA Forum on Implementation of Measures to Counter BEPS was mandated to produce a report presenting IOTA member country experiences and providing solutions on handling Country-by-Country Reports (CbCR) with a view of promoting effective and appropriate use of the CbCR information received, in particular for risk assessment purposes.

This report provides IOTA member tax administrations with up-to-date information and effective solutions concerning the practical implementation of the minimum standard of BEPS Action 13 ("Country-by-Country Reporting"), benefiting from the experiences of participating IOTA member countries.

The report is based on data provided by 25 IOTA member tax administrations participating in a country survey conducted in October 2018 to understand how IOTA member tax administrations are implementing 'CbC Reporting' mechanisms. The report is also based on data provided by IOTA member tax administrations participating in the 2nd meeting of the IOTA Forum on Implementation of Measures to Counter BEPS, held in Budapest, Hungary, on 4-6 December 2018 and data provided by 20 member countries participating in a country survey conducted in preparation for the 1st meeting of the IOTA Forum on Implementation of Measures to Counter BEPS, held in Bern, Switzerland, on 11-13 October 2017.

Additional information was also obtained by analysing external sources, e.g. OECD Reports.

During the preparation of this report, input was provided by the Steering Group of the IOTA Forum on Implementation of Measures to Counter BEPS, comprising of a number of BEPS experts from those IOTA members involved in the activities of the Forum, as well as from the OECD and the IOTA Secretariat. The Steering Group supported the Subgroup's efforts to collect information and experiences and prepare this report.

I would like to thank all those who contributed to the preparation of this report, but more particularly the seven members of the Subgroup who compiled this report: Werner Handler-Brosch (Austria); Andra Camelia Serbac (Belgium); Monica Acri (Italy); Ola Holdal (Norway); Adrian Taga (Romania); Esther Asenjo Martin (Spain); and Simon Kimber (United Kingdom).

I believe and hope this report will provide IOTA member tax administrations with a greater understanding of members' approaches to the effective implementation of country-by-country reporting.

Eugenijus Soldatkovas
ACTING EXECUTIVE SECRETARY
Intra-European Organisation of Tax Administrations

Introduction to IOTA Country-by-Country (CbC) Reporting

Action 13 of the Base and Erosion and Profiting Shifting (BEPS)¹ project introduced a standardised approach to transfer pricing documentation for MNEs, which consisted of three tiers: the master file, the local file and the CbC report. Of the three, the CbC report is a minimum standard² and therefore posed a challenge to tax administrations not only on how to implement the filing requirement regime, but also on how to successfully exploit this valuable source of data. A number of early adopting jurisdictions worked with the OECD to draw out some early lessons and from this the OECD's two manuals, Effective CbC Implementation and Effective Tax Risk Assessment were produced³.

These excellent manuals have become a cornerstone of how tax administrations have approached CbC reporting, especially the 19 risk indicators detailed in the Effective Risk Assessment Manual, which form the basis of many tax administrations' approach to risk assessment. As useful as these manuals are, they were written at a time when exchanges had not started, so actual data was not yet available, and before significant implementation had happened. It is important therefore to reflect on the last 3 years of CbC reporting, seek to identify best practices and capture the experiences of tax administrations over this period. This manual outlines some of the key findings from member country experience of working with CbCR over the last three years, as well as covering emerging topics and challenges faced by tax administrations.

IOTA formed a BEPS subgroup to review member experience so far, which consisted of seven countries: Austria, Belgium, Italy, Norway, Romania, Spain and the United Kingdom. These seven members, with a range of CbC experience, worked together to write this manual. At the beginning of the process, it was agreed that the work should seek to supplement not duplicate the OECD manuals and would focus on practical experience. This manual is intended to be a working, practical handbook that will assist tax administrations who have implemented CbC reporting and those who have yet to do so.

In addition to the chapters, several case studies have been included to provide a more detailed picture of how tax administrations have dealt with CbC reporting. These case studies show the different ways tax administrations have approached key areas such as risk assessment and also how they have organised their tax administrations to deal with CbC reporting.

Throughout the manual references are made to the CbC reporting template as described in the Action 13 report. The template consists of three tables which are reproduced in Annex 4.

¹ <http://www.oecd.org/tax/transfer-pricing-documentation-and-country-by-country-reporting-action-13-2015-final-report-9789264241480-en.htm> (OECD, 2015)

² The BEPS Package includes several measures ranging from new minimum standards to a revision of pre-existing international standards, and to common approaches which will facilitate the convergence of national rules and guidance drawing on best practices. Four mandatory minimum standards have been agreed to tackle issues in cases where no action by some countries would have created negative spill overs on the tax bases of other jurisdictions. All countries committed to implement at least those minimum standards which include CbC reporting. The implementation of minimum standards is monitored annually.

³ <http://www.oecd.org/tax/beps/country-by-country-reporting-handbook-on-effective-tax-risk-assessment.pdf> (OECD, 2017a)

<https://www.oecd.org/tax/beps/country-by-country-reporting-handbook-on-effective-implementation.htm> (OECD, 2017b)

The first automatic exchanges of CbC reports took place in June 2018. As of January 2020, there are over 2,400 bilateral exchange relationships activated with respect to jurisdictions committed to exchanging CbC reports. As of 1 October 2020, these include exchanges between the 85 signatories to the CbC Multilateral Competent Authority Agreement, between EU Member States under EU Council Directive 2016/881/EU and between signatories to bilateral Competent Authority agreements for exchanges under Double Tax Conventions or Tax Information Exchange Agreements, including 41 bilateral agreements with the United States.

IOTA Country-by-Country Reporting Survey

IOTA asked all its members to update them on how the BEPS Action 13 standard was being implemented. As well as covering the key minimum standard information, the survey focused on practical issues such as production of guidance and the procedures put in place. The survey was completed in 2018 and provides a snapshot of the approaches taken by jurisdictions towards CbC implementation at that time. The following represents the key findings from the survey and identifies some of the practices followed by the jurisdictions that have implemented CbC reporting. A summary of the survey results can be found in Annex 1.

24 member countries completed the survey:

Armenia, Austria, Azerbaijan, Belarus, Belgium, Czech Republic, Denmark, Estonia, Finland, Greece, Hungary, Ireland, Italy, Malta, Moldova, Northern Macedonia, Norway, Portugal, Romania, Slovakia, Spain, Sweden, Switzerland and the United Kingdom.

Of these countries, Armenia, Azerbaijan, Belarus, Moldova and Northern Macedonia were, at the time of the survey, in the planning stage and yet to adopt CbC reporting.

Implementation of CbC reporting can be broken down into four key areas:

- 1) implementing the legislation,
- 2) ensuring the CbC reports are filed
- 3) making the exchanges
- 4) using the CbC reports.

Each of the jurisdictions that had implemented CbC reporting had approached these aspects in slightly different ways, although broad themes are identifiable.

Implementing the legislation

- All countries have at least a local filing obligation in conjunction with the mandatory filing obligation for Ultimate Parent Entities (UPEs). The majority also have a surrogate or voluntary filing option.
- All countries have guidance outlining the filing requirements and some technical detail. In most cases, taxpayer guidance has been issued along with support such as FAQs and links to the OECD website.
- During and after the process of implementation, the majority of jurisdictions sought opinions from external stakeholders on the process.

Ensuring the CbC reports are filed

- All jurisdictions that have implemented CbC reporting have an IT solution to allow the MNE Group to submit a CbC report.
- Jurisdictions have adopted one of the following three models to validate the CbC reports:
 - 1) a Centralised CbC unit
 - 2) using the existing Competent Authority function
 - 3) undertaking this task within the Large Business teams

- As a minimum, jurisdictions undertake validation checks to ensure the files are valid. A number of jurisdictions go beyond this, undertaking a manual check of data and raising issues with the MNE Groups. These checks are looking for data errors, the files may have been valid, but the additional checks are focusing on ensuring the data is correct.

Making the exchanges

- All jurisdictions incorporate a check to establish that they are exchanging with the correct treaty partners. This will take the form of checking who has signed the Multilateral Competent Authority Agreement (MCAA) or Bi-lateral Competent Authority Agreement (BCAA).
- The majority of jurisdictions utilise transmission systems to transmit the CbC reports. This may be via the Common Communications Network (CCN) or Common Transmission System (CTS) depending on whether the recipients are EU members or not. In some cases, the file transfer involves PDFs.
- Upon receipt all jurisdictions use validation checks on the files.
- A number of jurisdictions reported inconsistencies in the data received. This mostly centred on the incorrect use of DocRefIDs, not using the latest certificates and multiple CbC bodies within one file.
- Within the data itself, the most common errors were: missing information, amounts shown incorrectly and missing tax identification numbers.

Using the CbC reporting data

- All jurisdictions have put in place procedures to ensure the appropriate use of CbC data.
- Most jurisdictions have not set up a new CbC team, instead opting for the data to be utilised within existing teams.
- The CbC data will, in most cases, be used alongside existing transfer pricing data to determine levels of risk.

At the time of the survey, CbC data was relatively new and so a common theme in the survey responses was that the answers provided set out what member countries expected to happen, rather than what had actually happened at that time. The IOTA CbC reporting group issued another survey in 2019 among group members to capture latest developments.

The focus of the new survey was to ascertain the progress made in respect to risk assessment and the techniques used. The results from this survey show a much more developed approach to CbC reporting. The results of that survey have helped form the foundation of this report.

Process for Filing and Exchange of CbC Reports

Introduction

The key principle of CbC reporting is that the Ultimate Parent Entity (UPE) of a qualifying MNE Group files a CbC report in its jurisdiction of tax residence. That jurisdiction will then exchange the CbC report with the jurisdictions that appear on the CbC report subject to the jurisdiction having adopted Action 13 and having the appropriate treaties and agreements in place. Information exchanged under treaty is subject to confidentiality rules and safeguards; CbC reports are no different. In addition, CbC reports are subject to additional restrictions on their use which will be covered in greater detail later in this report.

The process for filing and exchanging CbC reports requires tax administrations to:

- Identify the MNE Groups within their jurisdiction who are required to file
- Design and implement a process to allow the filing of the CbC reports
- Ensure the data quality of the CbC reports
- Transmit the CbC reports to treaty partners using the appropriate secure and agreed methods.

The process can be summarised as:

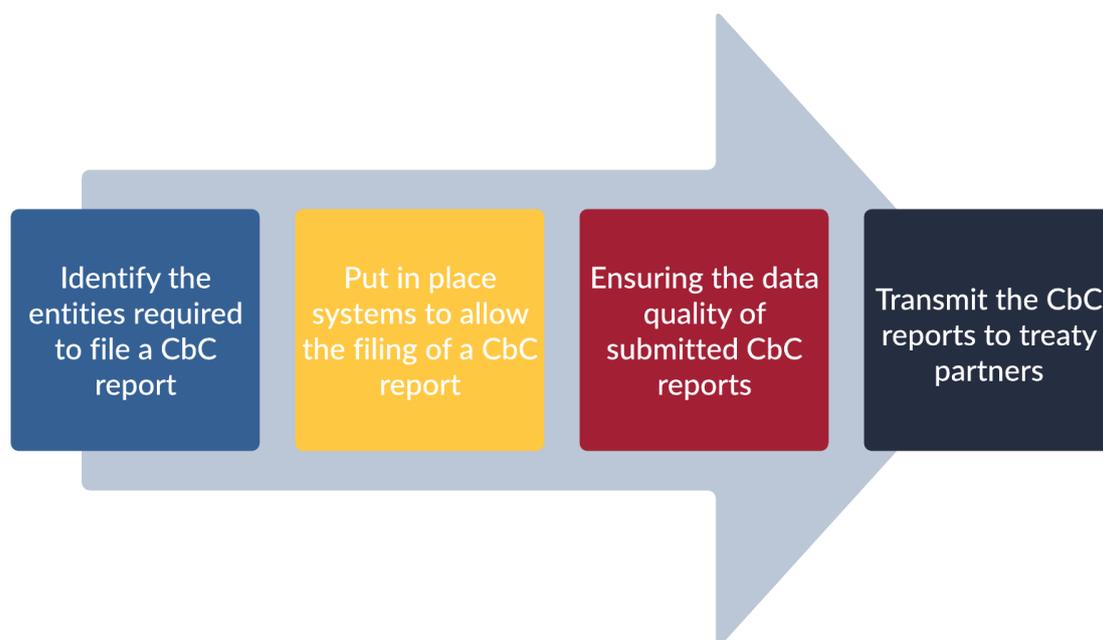


Figure 1: Process for filing and exchanging CbC reports

Each of these steps will involve further processes that tax administrations will need to put in place to ensure that the CbC data is held securely and can be used effectively.

Identifying entities required to file the CbC report

The first part of the process will be to identify the MNE Groups that are required to file in the jurisdiction. This ensures that the correct Reporting Entity sends the data to its own tax administration and the tax administration receives the number of CbC reports they are expecting. Understanding the number of likely CbC reports will be a key part of estimating the impact and resource needed by tax administrations.

There are a number of ways in which tax administrations can identify the MNE Groups that may need to file a CbC report. In most cases, tax administrations will have a good idea of the MNE Groups that are present in their jurisdictions, this will be more likely where the tax administration has a co-operative compliance programme and meets regularly with their taxpayers. Where the MNE group population is small, this will make estimating the number of expected CbC reports easier.

Caseworkers can check the number of domestic headquartered MNE groups with consolidated revenue of more than 750 million Euros and note all MNE groups with two or more enterprises in different jurisdictions through financial statements, business registers and third-party data bases such as Orbis.

This approach will not identify potential surrogate and local filers, if this is permitted by the jurisdiction. This can be a substantial number of reporting entities. As more jurisdictions adopt CbC reporting the number of surrogate and local filers will fall away.

A further option is to adopt the CbC notification procedure. Notifications require the UPE or the top constituent entity in a jurisdiction, to file a notification to the local tax administration outlining:

- who is filing,
- where they are filing
- and the names of the constituent entities within that jurisdiction.

This enables jurisdictions to know the number of CbC reports they will be expecting and from whom. It is also one of the ways that will enable jurisdictions to quantify the number of surrogate and local filers.

As with the CbC reports, tax administrations need to be prepared to check the data quality of notifications. Notifications are covered in more detail later.

Putting the systems in place to allow the filing of CbC reports

Reporting Entities are required to transmit the requested information in XML files and therefore tax administrations must have in place infrastructure to facilitate this. Where the tax administration expects to receive a large number of CbC reports, an electronic system is considered best practice for both the MNE Groups and the tax administration. Such systems do involve a cost, sometimes considerable. However, a potential benefit of such a system is that it may be used for other data received from a taxpayer. If the system can be adapted for other data sources the costs and resource burden may be reduced.

Where the number of reports is going to be very low a manual option also may be considered. This option involves the tax administration transferring the MNE Groups data into the XML format on their behalf. This is likely to be practical only in very limited cases.

When designing an IT portal, the following are key steps:

- Build a system that allows the submission of XML schemas
- Provide an XML schema that demonstrates the format for the information. The OECD provide a CbC XML schema: <http://www.oecd.org/ctp/country-by-country-reporting-xml-schema-user-guide-for-tax-administrations.htm> (OECD (2019a))
- Design validation rules that ensure the submitted XML schema is in a valid format to exchange
- Additionally, a test environment may be created where the MNEs' can check the compliance of data with technical specifications before submitting. It should be noted that not all IOTA tax administrations provide a testing environment.

An area that it is important to consider is how MNE Groups will make corrections and deal with errors in submissions. The issue of data quality is discussed in more detail later, however, correcting an XML can be an involved process and tax administrations need to have the resources available to support taxpayers throughout the correction process.

Case study - The UK experience

The UK estimated that it would receive around 350 CbC reports from UPEs. The UK has an established co-operative compliance model which enabled the UK to produce an accurate figure.

The UK has a very extensive treaty network so a number of surrogate filings from MNE Groups looking to exploit this network were expected. It was not possible to know the exact number so an estimate had to be made.

Given the large number of expected filings, work began on a submission portal to allow MNE Groups to file electronically. No submissions were accepted outside of this portal and no manual submissions were allowed.

The UK established a team to oversee the building of the portal. A delivery team was set-up to oversee the development of the portal, comprising of stakeholders from the key teams. This included members from the exchange team, policy teams, Large Business and data experts.

Work was undertaken in a series of “sprints” to develop, design and deliver the project. Various stages focused on establishing the taxpayer journey while using the system, who a typical user might be and also which UK validation rules would be appropriate.

The work took over a year to complete. While a significant undertaking, the work was worthwhile as the UK has a fully functioning system that allows users to file seamlessly.

Ensuring data quality of submitted CbC reports

This section considers the quality of the XML schema itself rather than the quality of taxpayer data, which will be considered later. IT systems perform checks at the submissions stage, these are called validation checks. The validation checks will be a mix of mandatory ones and ones that are country specific. The checks are looking to ensure the file is in the correct format and can be exchanged.

Among IOTA members the practice of checking the submitted XML file varies. Here are some examples:

Austria

Taxpayers in our jurisdiction file their CbC reports in XML format, via an online tool.

The CbC reports filed online are automatically tested upon filing by means of a validation module according to the CbC technical specifications made by the OECD and the XSD scheme in our test and in our production environment. In general, if we have a technical error handling, no incorrect message file will be exchanged between treaty partners. Incorrect files from reporting entities are rejected with an errors message. The whole report is rejected in case of technical error. A manual check of CbC reports filed is not generally conducted. However, in special cases such a check is performed. We have a formal validation and some consistency checks. In addition, we also perform a manual check on some of the information filed by the reporting company.

Norway

We have a formal validation based on the XML schema. In addition, there is an automatic check of the user identity. Each report is also subject to a manual check, including assuring the quality against pre-determined check lists.

Apart from OECD validation tests, 5 IOTA members perform manual screening before exchanging data. Other countries also have an automatic check of user identity. One IOTA member uses a pre-defined check list.

The checking process will often be an automatic one, but where it is manual, tax administrations need to factor this into resource considerations.

Transmission of CbC reports

The transmission process concerns the sending of CbC reports from one jurisdiction to another. The transmission process can be broken down into the following steps:

- Establish the jurisdictions you are permitted to exchange with
- Identify exchange jurisdictions from Table 1 (see Annex 4, figure 14)
- Submit the CbC report according to the exchange deadlines

It is essential that tax administrations monitor the signatories to the various exchange instruments to ensure that CbC reports are exchanged with the correct jurisdictions. As more jurisdictions adopt CbC reporting and sign the MCAA, the number of jurisdictions will change. It is also possible that exchanges will need to be restricted, for instance when misuse of CbC data is identified or a jurisdiction is not adhering to confidentiality standards. Involvement and oversight of Competent Authorities will be key to this process. Further considerations are

whether the jurisdiction has a reciprocal arrangement or not, or when the jurisdiction starts CbC reporting.

The OECD maintain a list of CbC signatories that can be found here: <https://www.oecd.org/tax/beps/country-by-country-exchange-relationships.htm> (OECD website, 2020a)

The annual peer review reports are another good source of information on the status of each jurisdiction's progress. The reports can be found here: <http://www.oecd.org/tax/beps/country-by-country-reporting-compilation-of-peer-review-reports-phase-3-fa6d31d7-en.htm> (OECD, 2020).

Once tax administrations are confident that they are exchanging with the correct jurisdictions the file transfer can be made.

IOTA members have used a number of different approaches in setting up their teams responsible for transmitting CbC reports. The majority rely on Competent Authorities to oversee this process, while some use a dedicated CbC team or the Large Business team.

The submission of the CbC reports is done electronically and the method will be via CCN or the CTS, so access to these systems is essential.

Below are some examples of the approaches IOTA members have adopted:

Austria process

XML files submitted electronically by Austrian entities are automatically transferred to an internal database. The transmission of the CbC reports submitted is handled automatically, by specially designed software that automatically extracts the CbC reports in XML format from the database, groups them by recipient jurisdiction to create a package and sends them to all recipient countries on the same, pre-determined date. The exchange is reviewed automatically and manually by the IT experts for any errors. Error messages of the recipient countries are of course also immediately reviewed and lead to new exchanges, if appropriate.

Belgium process

Belgium developed an IT application for the collection, validation, storage and international exchange of CbC Reports. Before the international exchanges take place, for each participating jurisdiction, certain jurisdiction specific preferences are manually introduced in this application. These preferences include the legal bases for the exchange, the start date of the earliest reporting period covered by the legal bases, the exchange framework (BEPS13 or DAC4) and the transmission method. All CbC reports are submitted in the CbC XML format. Once they arrive in our CbC database, the application is able to detect the Residence Country Codes of the entities mentioned in the reports. When an exchange is being prepared, the application collects all the relevant reports, taking into account the particular jurisdiction's preferences, and merges them into one XML message ready for transmission. The application is connected to a module which transmits the XML messages directly via CTS or appropriate system and which processes the corresponding status messages in return.

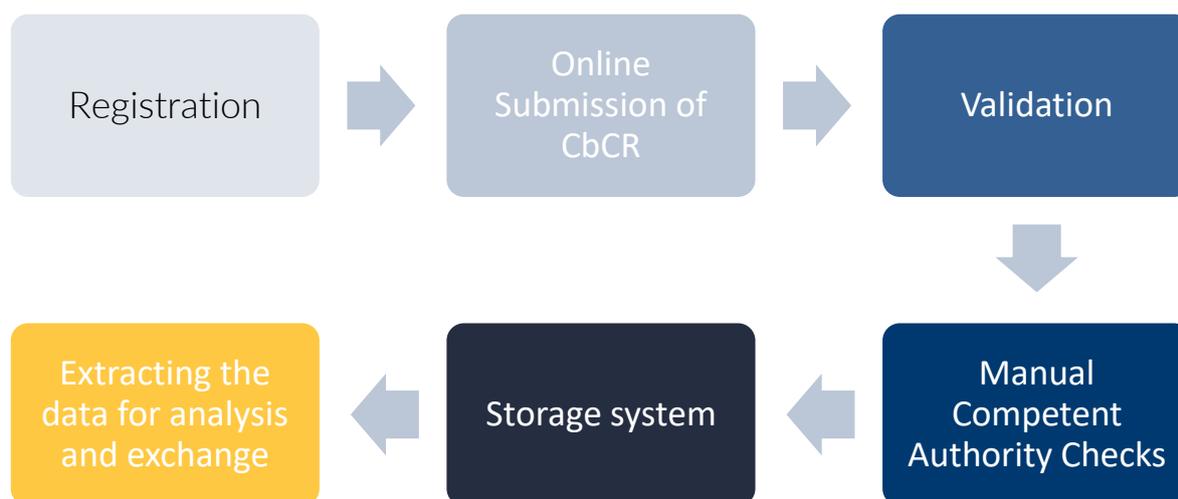


Figure 2: UK process for transmission of reports

UK taxpayers must register for the CbC reporting portal, an electronic method of filing. The UK only accepts CbC reports electronically and in XML format. Once submitted and having passed through validation, checks are made on the CbC reports. They are then stored electronically in a data hub. The CbC reporting data can be extracted from the hub to facilitate exchanges and also to support risk assessment work.

The UK has a central team that undertakes the sending of CbC reports. Working with the CbC policy team, a record is kept of the exchange relationships the UK has with other treaty partners. Competent Authority checks are undertaken on files sent by the UK and the ones received on exchange. Once satisfied the files are acceptable, they are released to the central storage system.

Guidance to taxpayers

As well as designing systems that allow the successful submission and transmission of CbC reports, taxpayers need guidance to help them adhere to the systems in place. The OECD will likely be the starting place for guidance and many tax administrations refer taxpayers to the main OECD guidance. In many ways this is sensible as it ensures a consistent approach. While this ensures consistency, especially for definitional issues, the issuance of country specific guidance is considered best practice, especially when concerned with outlining the filing obligation.

In addition to standard guidance, many IOTA tax administrations use FAQs and links to their own legislation as ways to help MNE Groups get the filing right.

Successful guidance will focus on two main areas:

- Setting out the filing obligation and definitional issues on completing the CbC report
- Setting out how to file, i.e. how to complete the XML schema.

In practice, the guidance is likely to be reviewed by different stakeholders. For example, the filing obligation guidance will be aimed at MNE Groups while the XML guidance is likely to be viewed by XML specialists. Therefore, having two separate manuals is good practice.

It is important to realise that while most of the entities that are required to file are large and sophisticated with an excellent understanding of their reporting obligations, this may not always be the case. Surrogate filing may fall on smaller entities within the group who lack the knowledge or support of the global parent. When designing guidance, this should be taken into account. These entities may also need more support with the filing process, so tax administrations need to take this into account and resource their teams appropriately.

Guidance covering the filing obligation should ensure that the following key areas are covered:

- The filing obligation – who should file and when, including local and surrogate filing obligations
- Notifications (if adopted) – who should notify, how and the deadline
- Content of the CbC report – outline the key definitional points, including the mandatory disclosures in Table 3 (see Annex 4, figure 16)
- The penalty process.

XML guidance should outline the XML schema and, importantly, how to make corrections. In practice, the OECD XML manual will suffice in most instances.

Some IOTA jurisdictions have provided sample templates in Excel format. Examples of namespaces, DocRefs and MessageRefs can be very useful and aid the completion of the schema.

Detailing the correction procedure with examples is an area that it is essential to cover in detail. Corrections are an area that has caused a number of MNE Groups issues, so jurisdictions writing guidance should ensure that the process for making a correction is clear.

Notifications

The notification procedure is an addition to CbC reporting. While not part of the Action 13 minimum standard, jurisdictions are able to adopt this requirement. For EU member states, notifications are included within DAC4 and so all EU member states will have a notification requirement.

The notification obligation will fall on UPEs present in a jurisdiction or constituent entities in a jurisdiction. To keep the reporting obligation simple, where more than one constituent entity is present, one entity is usually allowed to notify for all the entities present in the jurisdiction.

The notification has to be made on a yearly basis and is due at the end of the financial year to which the CbC report relates. This means that notification will arrive before the CbC report for the same period.

For example:

For Financial period 31/12/20, the CbC report is due to be filed within 12 months of the end of the period, so must be filed by 31/12/21. The notification is due at the end of the financial period, so by 31/12/20.

This means that if adopting notifications, the tax administration will know how many CbC reports they will receive from UPEs in their jurisdiction and how many they will get on exchange.

The notification typically contains the following information:

- Name and unique taxpayer reference of entity which will be filing the CbC report
- Names and unique tax reference numbers of all constituent entities resident in the jurisdiction.

Notifications provide valuable data, enabling tax administrations to know how many CbC reports they are expecting to be submitted and received on exchange. Notifications will also provide a record of all the constituent entities present in a jurisdiction. This information can be used to map the population and ensure that all entities are tagged correctly within the groups.

If adopting notifications, tax administrations need to establish how they will be submitted. IOTA tax administrations have used different methods, from emails to an automated form submitted with the CbC report. The number of notifications is likely to be large, some jurisdictions receive over 3,000 a year, so tax administrations should plan accordingly. Feedback from MNE groups and their advisors is that they prefer an automated approach.

Annex 2 contains an example of a notification template.

Overview of exchanges and treaties

A key principle of CbC reporting is that the reports are submitted in one jurisdiction and then exchanged with treaty partners who appear on the CbC report. In earlier sections, the process for exchanging the CbC reports was outlined, as was the importance of keeping up to date regarding the exchange relationships in place.

Countries have a network of treaties that govern many areas of tax including the exchange of information. Treaties or instruments can be bilateral, i.e. between two countries, or multilateral, meaning between more than two countries.

The most typical examples of these instruments are a Double Taxation Treaty (DTA) signed between two countries and the Convention on Mutual Administrative Assistance in Tax Matters (MAC), a multilateral treaty covering exchange of information. EU countries exchange CbC reports under the Directive on Administrative Cooperation (DAC).

All of these instruments allow the exchange of information according to the Articles within. The instruments also specify the uses of the information and confidentiality safeguards. It is important to realise that not all instruments are the same and not all taxes are covered. A third type of instrument that is relevant is a Tax Information Exchange Agreement (TIEA). The purpose of this agreement is to promote international co-operation in tax matters through exchange of information.

There has to be a legal gateway to facilitate the exchange of the reports. Once this is in place, CbC reporting has its own instrument that sits atop exchange instruments, which sets out how CbC reports should be exchanged and adds additional safeguards for their use. This agreement will either be: a Multilateral Competent Authority Agreement (MCAA), a Bilateral Competent Authority Agreement (BCAA), or a TIEA Competent Authority Agreement (TIEA CAA). The type of CbC agreement will be governed by the instrument it sits above.

For example, if a country is exchanging CbC reports via the MAC, the MCAA sits on top as these are both multilateral agreements. If a DTA is being used to exchange CbC reports, a BCAA is used, as both are bilateral agreements.

The following diagram summarises the treaty position:

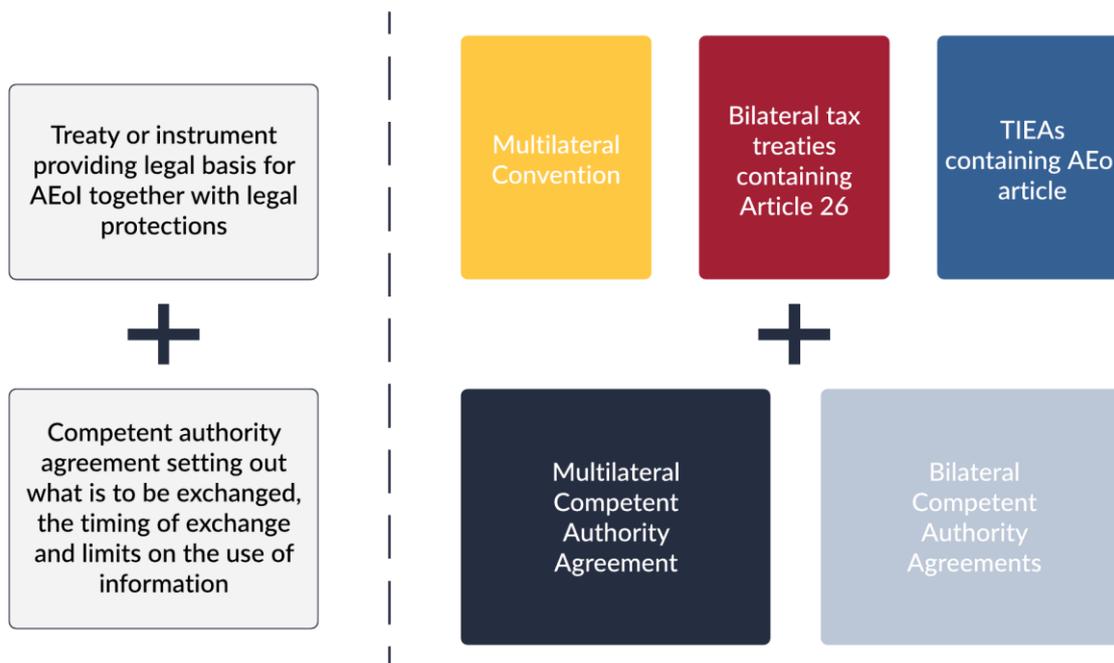


Figure 3: Overview of CbC exchange instruments

Some tax administrations have agreed to send CbC reports but will not be receiving them. These are called non-reciprocal agreements.

The underlying exchange agreement will also govern whether the information received can be shared with other tax administrations. This is considered in greater detail in the chapter on risk assessment.

Whichever CbC exchange instrument is used, they all contain certain key sections that govern how the CbC reports should be used:

Section 1 – Definitions

- This section details key definitions listed in the model legislation. These include outlining what is meant by a CbC report.

Section 3 – Time and manner of exchange of information

- This section details the timescale for making the exchange of CbC reports.
- It confirms that CbC reports are to be exchanged in XML language.

Section 5 – Confidentiality, Data safeguards and Appropriate use

- This section confirms that CbC reports are covered by the confidentiality provisions within the exchange instrument they have been exchanged under, and
- Sets out that the information may only be used for assessing high level transfer pricing, BEPS risks and, where appropriate, economic and statistical analysis. This is an essential concept for CbC reporting and one that tax administrations have to ensure is fully understood and controlled. These concepts will be explored in a later chapter.

Before the exchange of CbC reports takes place, tax administrations need to ensure they understand:

- The agreement that they are exchanging CbC reports under
- Whether the jurisdiction they are exchanging with has a valid exchange instrument in place, and
- Whether the other jurisdiction has a non-reciprocal agreement in place.

When considering the use and exploitation of CbC data, the same considerations need to be taken into account.

The OECD conducts a peer review which outlines the status of each jurisdiction that is adopting CbC reporting and is a very useful source of information. (OECD, 2020) The OECD also publishes a list of each jurisdiction and their activated CbC exchange relationships. (OECD website, 2020a)

Case study – The Italian Revenue Agency approach

To demonstrate how an IOTA tax administration has approached the implementation of CbC and the filing obligation, the following sets out in detail how the Italian Revenue Agency has implemented CbC reporting. It should be noted that the Italian Revenue Agency receives a large number of CbC reports and therefore has sought to implement a comprehensive system. This may not be appropriate to all jurisdictions, however, elements of the approach undertaken will be.

Italian Revenue Agency (IRA) CbCR Implementation

CbC reporting⁴ entered into force on January 1 2016. A ministerial decree dated 23 February 2017 (Decree), provided practical guidance on CbC reporting.

Within IRA, the offices involved in the implementation of CbC reporting are:

Office/Department	Responsibility
Ministry of finance	CbC reporting legislation process
	Use of CbC reports for statistical purposes
Cooperation International Office	Exchange process
Risk Assessment and Special Tax Audit Office	Risk Assessment activity
Regional Tax Audit Office	Tax Audit
Cooperative Compliance Office	International Compliance Programme (ICAP) Assurance

Table 1: IRA offices involved in the implementation of CbC reporting

⁴ CbC reporting was introduced in Italy by Law No. 208 dated December 2015, published in the Official Journal No. 302 on December 30 2015

IRA established an electronic portal to allow for the filing of CbC reports. The platform is called the Telematic Service of the Revenue Agency and MNE Groups have to register to use it.

Notification procedure

UPEs and Constituent entities must submit a CbC notification with their corporate tax return. The notification must include:

- Whether the entity is a reporting entity for CbC reporting, either as: the UPE, a surrogate parent or a local filing entity.
- If it is a constituent entity belonging to the group, the identity and tax residence of the entity filing the CbC report.

Additionally, the entity is required to indicate on the tax return whether or not the UPE has made available CbCR data to the subsidiary.

Comunicazioni relative alla rendicontazione Paese per Paese (art. 1, commi 145 e 146, legge 28 dicembre 2015, n. 208)

L'entità dichiara di essere:

a. Controllante capogruppo	
b. Entità appartenente al gruppo	
c. Supplente della controllante capogruppo	
d. Entità designata	
e. Entità diversa dalle precedenti	

La controllante capogruppo è residente in un Paese che:

a. non ha introdotto l'obbligo della rendicontazione	
b. non ha in vigore con l'Italia un accordo che consenta scambio di informazioni relative alla rendicontazione	

RS268 Entità tenuta alla presentazione della rendicontazione

Denominazione 1	Codice identificativo 2
Sede legale 3	Codice Stato estero 4

Controllante capogruppo

Denominazione 5	Codice identificativo 6
Sede legale 7	Codice Stato estero 8

La controllante capogruppo non ha reso disponibili le informazioni sulla rendicontazione

Altre informazioni
Other info

Disponibilità dati
Box to inform on data availability

Entità tenuta alla presentazione CbCR
Entity required to file the CbCR

Controllante
Controlling entity

Figure 4: CbC Notification Contained within the Italian Tax Return

CbCR transmission and validation procedure

The transmission from the MNE Group to IRA follows four steps:

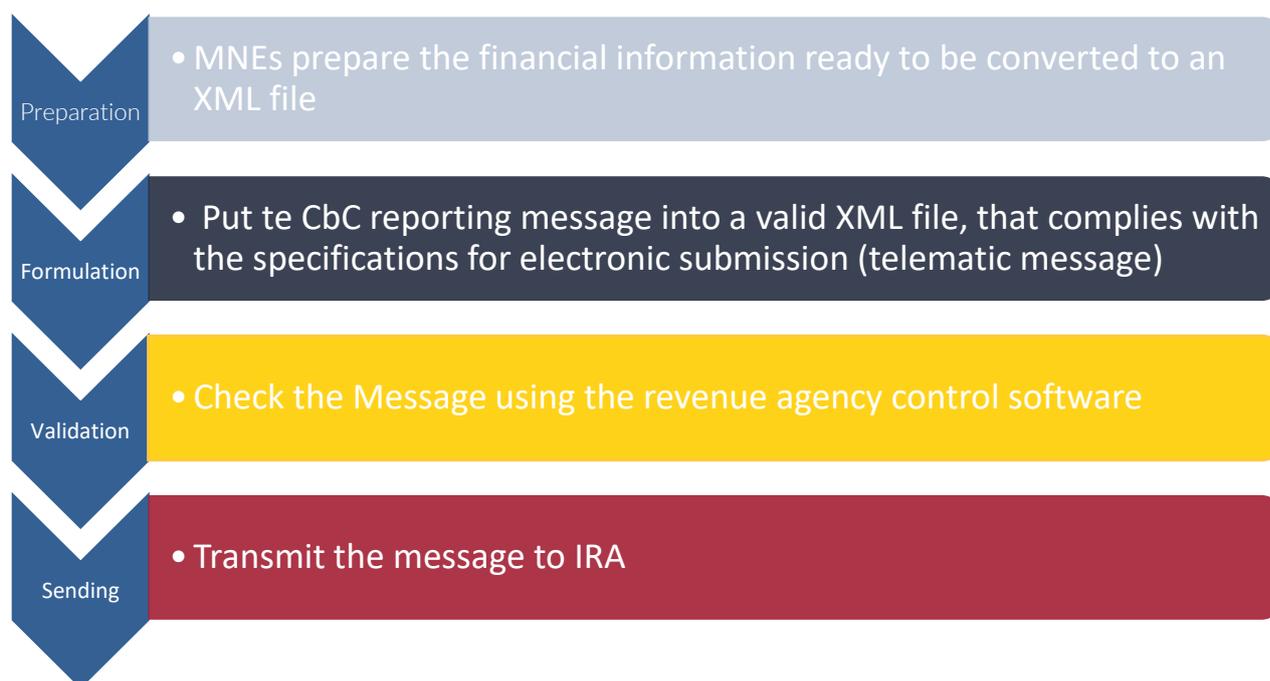


Figure 5: Steps involved in the transmission of CbC data from MNE group to IRA

The files are subjected to a further check upon receipt of the file. Following this, the file will either be accepted or rejected. Where a file is rejected, the errors will need to be corrected before re-submission. In case of rejection, a receipt is provided with an analytical description of the errors found. The file whose control at reception produces a reject receipt is considered not acquired and therefore the reporting entity will be able to retransmit it appropriately corrected within the established deadlines.

Validation

The validation process is a two-step procedure realised with the technical support of a technological partner, i.e. Sogei.

First step check: control software (client side)

IRA provides a client-type control module. This is designed to perform a formal check of the rules for compiling the electronic communication and the preparation of the file which is to be submitted.

Examples of the checks performed:

- validity of the XML file with respect to the XSD schema released by the OECD
- compliance with reference to further compilation rules, such as:
 - Mne group name:** check about limited length;
 - Summary limit table:** upper limit set for the variables of Table 1;

Currency: checks about the monetary amount: all amounts provided in the CbCR file must be reported in the same single currency, as it is the MNE Reporting currency;

XML Message: allowed characters;

- presence and correctness of the Italian tax codes present in the XML file.

The detection of any errors (blocking) or warnings (not blocking) will be displayed in a diagnostic file.

Depending on the outcome of the processing, the following conditions may occur:

Outcome of the check:

***Positive:** a summary report is provided, and the subsequent processing steps are activated (compression, encryption and sign).*

***Negative:** the detailed list of anomalies found. The subsequent processing phases are not activated, errors must be removed and the check performed again.*

Second step check: reception phase (on the server side)

When IRA receives the XML file, a receipt file is produced and several controls will be carried out, for example:

- correctness of the data with respect to the electronic communication (e.g. compliance with the specification version, other);
- correctness and existence in the Tax Register of the Tax Code of the Reporting Entity;
- compliance with the sending rules in relation to deadlines;
- conformity of the type of communication, relating to the CbC reporting message,
- In case of errors a receipt will be prepared, in which the list of errors will be reported.

To be implemented shortly

Since the beginning of Action 13, IRA has been developing several measures to improve the quality of data transmitted.

In addition to the OECD schema validation rules, further controls have been envisaged and the following is being explored:

- following the sending of the CbCR, where some inserted data contain disproportionate values, the transmission receipt will display warning messages with the indication of these abnormal values. If the data is incorrect, a correction will be needed.

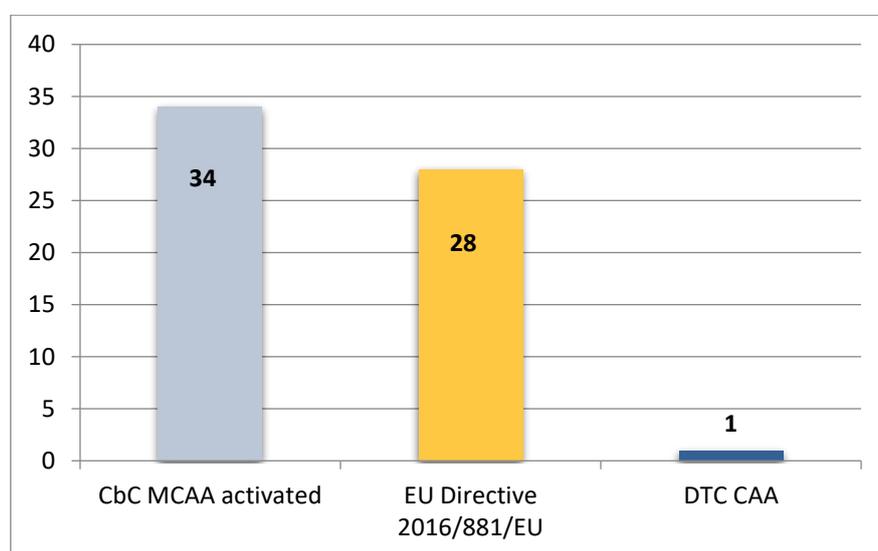
IRA exchange process

The CbCR exchange process is managed by the International Cooperation Office (UCI) based in the International Sector of the Taxpayers Division, and also by the Central Liaison Office for the automatic exchange of information.

In accordance with the legislative and regulatory rules, the teams:

- send to the countries indicated in Table 1 (see Annex 4, figure 14), with which there is a qualifying agreement for the exchange of information, the CbCR transmitted by entities resident in Italy;
- receive from foreign administrations the CbCRs filed by entities resident in the relevant jurisdictions, and where Italy is among the declared jurisdictions.

To date, Italy exchanges with 63 jurisdictions through the activation of the following exchange relationships.



Graph 1: Number of jurisdictions with which Italy is exchanging CbC data under the different exchange instruments

Data Quality

CbC reports contain a wealth of useful data and information on the activities of an MNE Group. As with any data source, the accuracy of the data is paramount to ensure it can be used effectively and efficiently. The impact of poor data quality will not only affect the home jurisdiction but also the treaty partners that the CbC reports are exchanged with. For MNE Groups, poor data can lead to false positives in the risk assessment and potentially time-consuming enquiries from tax administrations.

Some MNE Groups may view the preparation of a CbC report as an additional administrative burden, however, if the data provided inhibits the usefulness then this may mean that the additional resources devoted to preparing the CbC report will not be have been worthwhile.

CbC reporting is new for both tax administrations and MNE Groups and, as such, has been a learning process for all. In the first year many tax administrations quite rightly prioritised the submission of the CbC reports. As we move forward with CbC reporting the focus has shifted to ensuring data quality and compliance with the XML schema is improved.

Analysis of the first two years of CbC reporting has highlighted a number of data quality issues that have impacted on both matching the CbC reports to the right customer and risk assessment. There are multiple reasons for the recorded mistakes and work has been ongoing at a multilateral level to capture the common errors and agree guidance. This guidance has been published through the OECD CbC reporting group and the joint Working Party 6/Working Party 10 2020 review group: <https://www.oecd.org/tax/beps/common-errors-mnes-cbc-reports.pdf> (OECD, 2019b).

Types of errors

A CbC report is submitted via an XML schema. This is a prescribed form that both MNE Groups and tax administrations must adhere to. The schema allows for three broad types of submission:

- A primary filing – this means a new CbC report
- A correction – correcting existing data
- A deletion – deleting data. This may be needed when correcting data already submitted.

The schema requires a number of key data elements which, amongst other things, identify the CbC report, identify the sending entity or detail whether the report is a primary or correction filing.

The type of errors identified so far fall into THREE main areas:

1. XML issues,
2. incorrect information being provided and;
3. definitional issues

The OECD schema will be updated in early 2021. The OECD have published the revised XML schema for tax administrations to incorporate into their systems. (OECD, 2019a)

XML issues

XML is the specified format for which CbC reports are exchanged between tax administrations. XML can be difficult to work with, and for entities who lack the familiarity with XML, the requirement of filing in an XML format is a problem in itself. This has been most evident in cases where an entity has had to locally file potentially without the support of the head office. As more countries adopt the BEPS minimum standards this issue should decrease, nevertheless tax administrations should monitor this and ensure support is available.

A further problem can occur when corrections are asked for. The correction process has to follow a precise procedure. It is important that clear guidance is provided to MNE Groups and support offered by tax administrations to ensure the correction process is as smooth as possible. Tax administrations should also ensure that experienced IT specialists can be called on to resolve issues. The OECD has produced an XML schema guide <https://www.oecd.org/ctp/country-by-country-reporting-xml-schema-user-guide-for-tax-administrations.htm> (OECD, 2019a). Many jurisdictions have also produced their own guidance, an example is: <https://finances.belgium.be/sites/default/files/downloads/126-beps13-cbc-guidance-on-correction-process.pdf> (Belgium, 2019).

Validation rules

As part of the submission process XML schemas are subject to the validation checks. The validation checks prevent incorrect data being submitted. The validation rules provided through the XSD scheme by the OECD are a good starting point and tax administrations are able to add additional ones.

There are certain elements of the files for which no automatic validation rules can be implemented. These are fields within the schema where any value is accepted. This is the case for example for the TIN numbers where, by necessity, any format is permitted. The only solution available for spotting these errors is to manually check the data.

Some countries have adopted a “nudge” approach to XML schema validation. For instance, when a user enters multiple currencies a pop-up will appear asking if this is correct. While it does not stop the submission, this approach highlights to the filing entity that the data may be incorrect. For tax administrations who have yet to build a system, or administrations who are able to adapt their systems, this should be considered best practice.

While the main focus is on the submission of the CbC report, some jurisdictions also require additional documentation to be provided. For example, the electronic submission of a master and/or local file. Where this is in an XML format, the same care and guidance needs to be applied to ensure accurate filings.

Common errors and how to spot them

The XML file may be valid but the information within the file still may be incorrectly completed. This does not impede the submission or exchange but may have a material impact on the ability to risk assess the CbC report. Listed below are some of the common errors that tax administrations are seeing and how to spot them.

Unlikely monetary unit (not flagged in xml file)

An example of this may be use of the gold standard or daily spot rates. Unless this is the functional currency of the MNE Group, this is incorrect.

This may be spotted by looking for apparent abnormally large or small numbers. Sometimes an entry is added to Table 3 identifying the currency used.

Multiple Currencies included in the CbC report

The CbC report should be completed in the functional currency of the MNE Group. This means that the CbC report should contain only one currency. Some MNE Groups have added more than one currency, in some cases a different currency for each jurisdiction. This means the information is not comparable and will impede the risk assessment process.

This is unlikely to be spotted via a manual check and will require the use of data analytics to identify the error.

The sum of “unrelated party revenues” and “related party revenues” does not add up to the total revenue figure

This is simple to spot if undertaking automatic checks. Some differences may occur from rounding so tax administrations should set a limit for the level of difference they will seek a correction for.

Total revenues of less than €750m

In almost all cases the total revenues on the CbCR should be over €750m as this is the reporting threshold. There are some reasons why it may be less:

- If the file is a local filing and therefore is only showing a partial picture of the group
- The group turnover has decreased. As CbC reporting is based on the previous year's turnover, some variance may be expected.

It may also be an indication of the use of abbreviated numbers. This means that the MNE Group has taken numbers off the figures shown. For example, €190,008,989 is only shown as €190. While some rounding may be allowed depending on the tax administrations guidelines, abbreviating numbers is not.

In cases where the total revenue is below €750m, tax administrations should contact the filing entity to ensure the information provided is correct.

Possible transposed columns

In some cases, the amounts provided are so large that they could not be true. This may indicate that the columns have been transposed. For example, the figure for stated capital and staff may be swapped leading to an impossibly high staff figure.

To spot this, it will usually require a manual check. Automatic checks may be used if a de minimus figure can be ascertained. One example could be searching for staff numbers over 1 million in a single country.

Multiple jurisdictional lines

In Table 1, each jurisdiction should appear once. IOTA tax administrations have identified a number of CbC reports which feature a jurisdiction appearing multiple times. This is relatively easy to spot from both a manual or automated review.

Negative Values

The CbC reports are produced from accounting information and, in some instances, the figures used will be negative ones. In the majority of cases, the figures on the CbC report should be a positive figure. The following are columns where negative values would be expected only in exceptional cases:

- Stated capital
- Employees
- Tangible assets

Where tax administrations see negative figures for these columns the MNE Group should be asked to explain why the figure is negative.

A further column where negative figures is unexpected but more common is unrelated and related party revenues.

In the vast majority of cases these will be positive figures, however, tax administrations have identified instances where negative figures occur. In some limited cases, the revenue figure shown in the accounts is net and, if shown in this way, the OECD guidance says that an adjustment is not required. This presentation is seen more commonly in financial groups.

Further explanations offered have been where an entity is being closed down and has issued a large amount of credit notes.

Descriptions of the activities carried on by constituent entities

In Table 2, the MNE Group should list all the constituent entities by jurisdiction and indicate from a set list the main business activity(ies). In a number of instances, the activity ticked has not matched the known activity of the entity or a key activity has been missed.

TIN Issues

The Tax Identification Number or TIN is a key identifier for tax administrations when looking to link a CbC report to a constituent entity. There is no global standard TIN and, in some countries, which do not have a tax system, no TINs exist. The XML schema therefore has to allow for a wide range of formats and also the possibility of an entity having no TIN.

The single biggest issue for tax administrations has been matching a TIN to constituent entities within their jurisdictions. Especially prevalent has been the use of NOTIN for entities that do in fact have a TIN. The XML guidance is clear that NOTIN should only be used where an entity has no TIN but MNE Groups have been using it much wider than this.

A similar problem is where a TIN is provided that is in the wrong format or where spaces have been input, meaning no number is present but it is accepted by the XML schema.

It is unlikely that a system could be developed to validate TINs. Such a system would require details of all the TIN formats used in the world and this is not realistic. However, tax administrations can check submitted CbC reports to ensure that NOTIN has been used correctly. This will mean that treaty partners are more likely to be able match the CbC report to a constituent entity in their jurisdiction.

It is best practice for UPE jurisdictions to ensure that CbC reports filed in their jurisdiction have TINs. This is easier for the home jurisdiction as they are likely to have the contacts in place with the MNE Groups and can leverage these to make the filing as accurate as possible. It may take tax administrations time to get such checks in place, but doing so will help their treaty partners and improve the matching rate and ultimately the use of CbC reports.

Mis-labelling of submitted CbC reports

The requirement to file a CbC report will typically fall on the UPE if primary filing, or a constituent entity if local or surrogate filing is allowed. The XML schema details set codes which should be used for each. This is important as outside of the EU countries, local files are not exchanged.

Tax administrations have identified situations where MNE Groups have filed a surrogate filing in more than one country. This often happens when the country in which they are tax resident does not have exchange agreements with all the countries adopting CbC reporting. As well as not being permitted in certain countries, the result is that tax administrations receive two or more CbC reports. This can cause issues for checking and matching as well as sometimes not being accepted by computer systems.

Tax administrations that have notification requirements should ensure they are completed correctly so that MNE Groups are encouraged to file their primary filing only once.

A list of the most common errors based on the feed-back of various countries was published by the OECD. The OECD will continue to update this list as more errors are reported by tax administrations. <https://www.oecd.org/tax/beps/common-errors-mnes-cbc-reports.pdf> (OECD, 2019b).

Definitional issues

The Action 13 report, in conjunction with the OECD clarificatory guidance, provides information on how the CbC report should be completed and what the definitions mean. Despite this, there are some columns which appear to cause MNE Groups issues. These are highlighted below. Where tax administrations see continued issues with these columns, they should provide feedback to the OECD so the guidance can be updated as necessary.

In the following examples some limited reconciliation back to the consolidated financial statements may be useful. Note though that the Action 13 reports are clear that reconciling back to the financial statements from the CbC report is not required. Due to the CbC report being broader than the financial statements a reconciliation is unlikely to be fully successful.

Tax Accrued

Tax accrued should include the current tax expense for the year. There will be differences between the cash tax paid in one year and the tax accrued. This is to be expected. Nevertheless, some MNE Groups have reported the Tax Accrued per subgroup almost perfectly inversely proportional to Tax Paid. This is unusual and may require further investigation. Verification of the amount of taxes in the consolidated annual report may be needed.

Tangible Assets

Tax administrations have identified significant differences between the tangible assets reported in the consolidated financial statements and the CbC report. While the guidance is clear, it appears that some MNE Groups are including additional items such as financial assets. If the figure is inaccurate it may impact the successful risk assessment of the CbC reports. This an area where an automatic check is difficult so manual verification is required.

Negative figures

A number of the columns on the CbC report detail information that could be reported as a negative, an example of this is the Profit (Loss) before income tax column. Other columns either should not be reported as negative figures or it should be the exception. MNE Groups have some flexibility to provide net figures but only where the figure is shown as such in the income statement and that treatment follows accounting principles. In practice, this is relatively rare and most likely to be seen in the financial sector.

Tax administrations have identified a number of instances where MNE Groups have shown columns, such as stated capital, as a negative without any explanation in Table 3.

The following columns are examples where negative figures will need an explanation: unrelated and related party revenues, stated capital, employees and tangible assets.

It is good practice to incorporate the OECD guidance into domestic guidance. Additionally, tax administrations should encourage MNE Groups to add an explanation to Table 3 when a negative figure is used in the columns detailed above.

OECD Guidance

CbC reporting is new and continues to evolve as tax administrations review the data. Numerous strands of work continue on a multilateral level to identify issues and agree consensus guidance. This process is essential so that all tax administrations are working from the same guidance and a consistent approach is adhered to. A consequence of this is that some MNE Groups may treat transactions from one year to the next differently, depending on the guidance.

For example, the guidance released in November 2019 makes it clear that dividends from related parties should be excluded from related party revenues. This means that dividends are excluded from the profit figure. The consequence of not excluding the dividends is that the profit figure may be inflated by the dividends and not show a true picture of the profits. The example below demonstrates this point and the impact of the revised guidance on the figures reported.

	Year 1	Year 2
Profit before tax	€5,250,999	€5,000,999
Dividends	€20,000,000	€20,000,000
Total profit for CbCR	€25,250,999	€5,000,999

The example above shows that CbC reports filled out in two different years but following the appropriate guidelines at the time, can show significantly different results. It may appear that profits of the jurisdiction have dropped by €20,000,000 which would almost certainly warrant a question of the MNE Group. In fact, all that has happened is that the dividend income has now been excluded from the profit before tax figure.

As well as inflating the profit before tax figure this will also have a material impact on the Effective Tax Rate calculation (ETR). While any ETR figure calculated from the CbC report should be treated with caution, it can provide a useful guide. The ETR is calculated on a CbC report by dividing Tax Accrued by Profit before tax.

Using the profit before tax figure in the above example and assuming a tax accrued figure of €550,000, the ETR in Year 1 is:

$$€550,000 / €25,250,999 = 2.18\%$$

For Year 2 the figure is:

$$€550,000 / 5,000,999 = 10.99\%$$

Tax administrations need to be aware of the changes made by the OECD and ensure that MNE Groups comply with them as well as ensuring tax officials know about them.

Incorrect notifications

While notifications are not typically an integral part of the risk assessment process, an accurate notification allows tax administrations to gauge the number of reports they will receive. This can help inform resource planning. As the notifications contain a list of the constituent entities within the tax administration, an accurate list will also assist in determining which entities are in an MNE Group.

Typical errors seen by IOTA tax administrations in notifications include:

- Listing the wrong filing type – for example listing the filing type as surrogate when the CbC report is actually filed in another tax administration.
- Missing constituent entities
- Multiple notifications – some notification legislation allows the top constituent entity to notify on behalf of the other constituent entities within a jurisdiction. In some cases, each constituent entity has notified, leading to confusion and an unnecessary burden for both the MNE Group and the tax administration.
- Identifying the wrong filing entity. This can make checking that the correct CbC report has been received very difficult.

How to keep MNE Groups up to date with changes

Tax administrations will need to devise strategies to ensure that key messages about changes to guidance or requirements are communicated to MNE Groups. Tax administrations have taken different approaches to how the guidance is incorporated.

Some have added links to the OECD website detailing the guidance. The advantage to this is that the MNE Groups will always be directed to the correct place and the latest guidance. The downside is that some users may not access the links and therefore may not see it. If links are used, tax administrations need to ensure they have the resource to maintain the links.

Other tax administrations reflect the OECD guidance within their own guidance. The advantage is that users can clearly see what the latest guidance is and what to follow. This approach does require additional resources and maintenance of guidance pages so needs to be considered carefully.

Frequently asked questions (FAQs) are a useful tool to enable MNE Groups to quickly see the most relevant issues.

It is recommended that tax administrations use established communication channels to share key messages with external stakeholders at the earliest opportunity.

A further technique is the use of nudge communication. This involves prompting users to change behaviour or highlight upcoming changes. These techniques can also be used with CbC reporting to alert users who make consistent errors how to comply. This can save resources for tax administrations and MNE Groups alike.

Checking for errors

Errors can occur on all CbC reports whether they are submissions or inbound. As there is only a three-month window between the last day for submission of the CbC report and its exchange, it is possible that a sending jurisdiction will not have had time to identify and correct errors before exchanging them. In most cases the tax administration will take the view that the CbC report should be exchanged and follow this with a correction when it is provided. This is a sensible approach as it is not always possible to establish when a correction will be provided by the MNE Group.

This situation may be different if the error is so substantial to render the CbC report as unusable. For example, where a MNE Group has submitted all the figures as zero. There would seem little point exchanging such a file. However, a CbC report missing some TINs may still be exchanged and the missing TINs provided once supplied by the constituent entity.

Jurisdictions apply different strategies to their CbC report depending on how they are received. This is also the case for the error spotting. In most cases it will be simpler for jurisdictions to check for errors in their own submitted CbC reports. This will cover UPEs located in the jurisdiction as well as surrogate and local filings. Jurisdictions will have access to more information and have greater ability to liaise and work with the MNE Group to ensure a correction is received.

There are also jurisdictions, such as the UK, where the CbC report undergoes the same procedure of spotting and treating the errors, irrespective of whether it is a submission or an inbound file. In every tax administration there should be a process for examining information. Depending on the available resources in the tax administration and the number of CbC reports received annually, the process might be more or less involved.

IOTA tax administrations have adopted different approaches to spotting and identifying errors. The approach chosen will depend on resources and expertise within a tax administration. The following examples demonstrate the approaches taken:

- A central CbC team which centralises all knowledge about Action 13. Typically, this is a mix of taxpayer facing and support staff who are focused on spotting CbC errors. The staff who are taxpayer facing, will be responsible for contacting taxpayers directly to deal with issues and seek corrections, if needed. The support team will be responsible for analysing data and sharing the errors with other staff.
- Competent Authorities responsible for exchanging international information undertake checks. Typically, they will perform checks to identify structural errors within the filed CbC report. The checks are applied to submitted and inbound CbC reports.

In addition to using dedicated teams, other parts of a tax administration are key to spotting errors and ensuring data quality.

- Where a co-operative compliance programme is in place, the taxpayer managers may be used to discuss issues with the taxpayer. This approach allows the jurisdiction to utilise the expert knowledge and is likely to spot errors that cannot be spotted from automatic analysis. This can be especially useful in applying a “sense-check” to the data with the case teams asking themselves if the data looks correct.
- Statistical analysis is a key use of CbC reports and while performing these tasks, the data experts have spotted issues with the CbC reports that other methods have missed.

- Auditors and case teams, as users of the CbC data, have also been useful sources for detecting errors. Once again, these errors are ones that may be difficult to identify from automated checking and rely on detailed knowledge of the taxpayer. An example of this was a team that spotted a jurisdiction had been missed off the CbC report. The case team had a detailed knowledge of the taxpayer and when analysing the report spotted a jurisdiction was missing, yet they knew the taxpayer had a presence there.

With all approaches, establishing a feedback loop to capture issues and make sure that the primary teams undertaking the work are kept informed and updated is key.

Case study - Belgium approach to dealing with errors

The following case study details the type of checks that Belgium undertakes on the integrity of the XML file and the type of error they look for.

Automatic Checks on XMLs

In Belgium, all information exchanged internationally, both incoming and outgoing, is checked using the validation module developed by the European Commission. For the validation of messages coming from non-EU countries, certain EU-specific validation rules are set aside. In addition, Belgium also validates all nationally submitted CbC reports. This is a very technical check, aimed at identifying what Belgium call “blocking” errors within the XML files. The presence of a blocking error will cause the CbC report not to be exchanged. For instance, the absence of a TIN is not a blocking error as the use of “NOTIN” is allowed whenever the constituent entity has not been attributed a TIN in its jurisdiction of residence.

CbC reports submitted by Belgium UPEs, local or surrogate filers, are automatically validated on a set of specific criteria. There are some validation rules meant to increase the data quality of the reported information which are specific to Belgium and there is also a set of validation rules which are directly derived from the OECD CbC XML Schema and User Guide guidelines. The rules shown below are a summary of the validation checks undertaken by Belgium. These are shown to demonstrate how tax administrations can tailor their checks to ensure XML files are correctly completed.

The automatic validation and most of the manual checks are performed at this point by the Competent Authority. The additional manual checks, especially where specific knowledge regarding the content is needed, can be done by staff in the Large Enterprise division. The Large Enterprise division, via the Sector Coordination Team, will contact the local filer when errors are identified in a nationally filed CbC report. Their staff will require explanations from the MNE and, if necessary, a corrective CbC report submission.

When errors are identified in an inbound CbC report, the Competent Authority will contact the partner country and request clarifications or corrections.

Validations specific to Belgium

- The identity of the submitter and the authenticity of the submitted CbC report, by comparing whether the BCE (the Belgium TIN) number of the submitter in the MyMinfin portal corresponds to the TIN that is declared in the XML element "ReportingEntity" of the CbC report.
- The end date of the reporting period specified in MyMinfin must be identical to the end date specified in the XML file
- The start date specified in MyMinfin must not be more than two years before the end date
- The presence of the ReportingEntity element and of the TIN within that element
- The uniqueness and correct structure of the MessageRefID, DocRefID and possibly CorrDocRefID
- The CorrDocRefID must correspond to the DocRefID of a known and active file in their own database
- TransmittingCountry and ReceivingCountry have both been completed with country code "BE" for national reporting.

OECD derived

- The validity of the XML structure
- The correct version of the XML scheme
- The absence of forbidden character combinations: --, /* or &#
- The presence of OtherEntityInfo if BizActivity "Other" is selected
- The MessageTypeIndic (NEW or CORR) and the permitted combinations with the various DocTypeIndics
- The presence of the attribute "IssuedBy" with the TINs
- The presence of at least one element CbCReport
- All XML elements must contain at least one character, elements that contain only a space are not allowed
- All mandatory address fields must be present and completed
- The XML file header must contain "UTF-8".
- In the case of corrections, the ReportingEntity element can only be cancelled if all linked elements "CbCReport" and "AdditionalInfo" are also cancelled.
- Only one type of currency may be used in the XML file (this validation rule was introduced in 2019 after it turned out to be a common mistake).

The above validation rules check the structural correctness of the CbC report submitted. This validation is done automatically at the moment of submission. The submitter receives written feedback on the result of these validations. In case of errors, a message with the type of the recorded mistake is sent to the filer. Until the highlighted messages are corrected the CbC report receives the status "In error" and is not validated. Hence, the filer must take the necessary action in order to comply and receive an acknowledgement of their submission.

This validation module used to validate the CbC report received from abroad only validates the structural correctness of the foreign files.

This process is reviewed to take account of any changes to the XML schema.

Manual checks

In addition to the automatic validations, a high-level manual control is undertaken before exchanging the CbC report. Every treaty partner's specific message is visually compared against the CbC message. This ensures that the messages are adapted to the specific requirements of each exchanging country. The following aspects are checked:

- structure and completion of the header of the XML file
- the number of elements 'CbcbBody' with the number of available nationally submitted CbC reports
- the presence of the country code of the country of destination in at least one XML element "CbC report".
- the format of the message:
 - the structure of the XML file seems visually correct
 - whether the content seems to be correctly formatted
 - whether the elements Warning and AdditionalInfo are present where necessary

For each exchange, a sample of two messages sent to EU countries and two messages sent to non-EU countries are checked in more detail:

- the absence of forbidden character combinations
- the format of the monetary amounts (without decimals, commas or dots)
- the correctness of the Namespaces (absence of urn, ns1, ns2 ... in the Namespaces)
- the completeness of the country reports included in the message compared to the original nationally submitted country reports.

Additionally, submitted CbC reports are subject to verification of the accuracy of the content whenever an audit is performed.

If blocking errors are identified during the checking process, the files are put aside, in quarantine, and a corrective message is requested from the filing company.

If the errors are not blocking and all the other verified elements are correct, the files are exchanged or used for operational, strategical or tactical matters.

Whenever the results of the checks lead to a conclusion of "potential error" (but not blocking) in the submitted file, an inquiry is sent to the person(s) who submitted the CbC report. If there is no acceptable explanation for the identified error, a correction is requested.

Case study - UK Approach to dealing with errors in the CbC reports

The UK has developed a process for spotting common errors and seeking corrections from MNE Groups and other jurisdictions.

The first part is a Competent Authority check. This check is to test the validity of the file, not the content. Once through this check, the files are released to the UK data warehouse.

Once within the data warehouse, further checks are undertaken. The UK has a small, dedicated team who have been set up to check both the CbC reports and the notifications. The process is a mix of automated checks run on the bulk data, supported by manual checks. Before using the approach, the CbC policy team undertook extensive discussions with HMRCs Large Business and Mid-size Business teams. This was to understand the requirements of their customers and also the type of information the case teams would need to support the correction process.

HMRC data checking team

In the first year of CbC reporting, HMRC had an ad-hoc approach to checking data quality. The focus was very much on encouraging compliance with the regulations and ensuring that the CbC reports were filed.

The diagram below shows the set-up of the UK team.

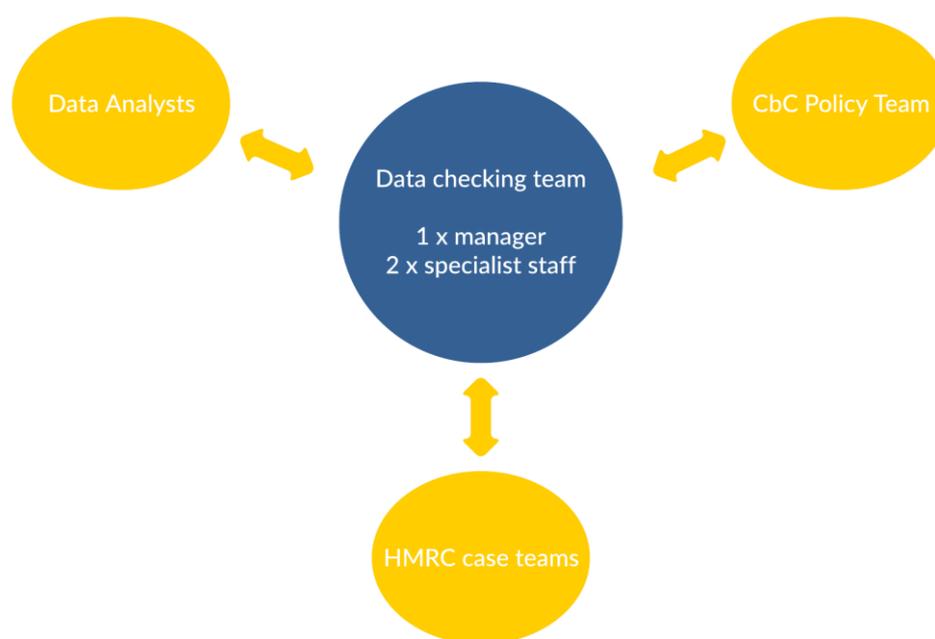


Figure 6: Set-up of the UK data checking team

The data checking team are central to the process and co-ordinate and manage the process. They get valuable input from:

- CbC Policy Team – set the strategy for the data checking team. Provide updates from the OECD and reflect changes in guidance which may mean that the checks are finessed to reflect this. The Policy team also has Competent Authority status so will deal with other tax administrations, for instance, in verifying CbC reports received on exchange.
- Data Analysts – provide the tools to run the checks on the data and make it available in a form that can be checked. They are responsible for updating the profiles as requested.
- HMRC case teams – receive the outputs from the checks and issue the template letters to UK customers. They may spot errors not identified in the automatic checks.

- Data checking team – oversee the checking process and are responsible for sending out requests for clarifications and corrections. They update and review the type of corrections needed.

The UK has developed a process to check for errors and seek corrections, where appropriate.

Step 1

Identify the common errors. The UK currently looks for the following errors:

- Multiple currencies
- Total revenue not matching unrelated plus related
- Negative figures in certain columns
- Country data on multiple lines
- Abnormally large figures – possibly indicates figures in the wrong column
- Missing foreign TINs

This list is kept under review and the UK expect it to be refined as MNE Group compliance becomes better and they react to updated guidance from the OECD.

Step 2

The bulk CbC data is profiled for these errors and a list created. This analysis is conducted using analysis tools and is automatic.

Step 3

A manual review is undertaken of the error list. This check is to ensure the system is working correctly.

Step 4

The team will contact the customer relationship manager and provide them with a template letter to be sent to the customer requesting a correction or explanation. The template letter minimises the resource requirement on case teams. The letter also details the correction process.

Step 5

Responses are monitored to check whether all the corrections have been received and the explanations are reasonable. In several instances, HMRC has received explanations that clarify why the apparent error has occurred. Examples of this include where a missing TIN is due to the country not issuing a TIN. In these cases, HMRC updates its list of jurisdictions that do not issue TINs, so the jurisdiction does not appear in future analysis.

A similar process is planned for CbC reports received on exchange. In this case, HMRC will go back to the other jurisdiction and ask for the missing information.

Key Points

- The data checking team needs support from CbC policy teams
- A feedback loop is essential to understand what may or may not be an error, which helps to finesse the search for errors
- The use of standard templates minimises the work for case teams
- Preparing FAQs for case teams can be very useful

Notifications

The process for notifications is similar but less intensive. The UK receives the notifications via email and receives over 3,000 per year. The UK have a small team who are called upon during peak times. The peak notification times for the UK are January and April, following the December and March year ends respectively.

The team input the notifications into a spreadsheet so the UK has a record of them. From this record, the UK can determine who is filing, where and when. The UK use this to ascertain the number of reports it will receive and to carry out a post-exchange check to verify that the correct number of reports have been received.

In addition, the UK compares the notifications from year to year to ascertain whether a notification has been made by a constituent entity. Where a constituent entity makes a notification in one year but does not in the following year, the team will contact the entity to check that a mistake has not occurred.

Ensuring Confidentiality and Appropriate and Effective Use

The Action 13 report sets out that the CbC reports may only be used for high level transfer pricing risk assessment and cannot replace a transfer pricing analysis. It also sets out that the reports cannot be used to make adjustments to the arms-length price based solely on the data contained in the CbC report. These principles are also included within the bilateral and multilateral Competent Authority agreements which allow the exchange of CbC reports. Tax administrations have to put in place procedures and checks to ensure that the data is used appropriately.

In addition to these CbC specific requirements, the data is subject to confidentiality rules. CbC data must be maintained to the same confidentiality standard as other Automatic Exchange of Information (AEOI) data. This conforms to the Global Forum standard and brings CbC in line with other AEOI such as the Common Reporting Standard (CRS). In addition, CbC data should be treated as secret and protected in the same manner as any other taxpayer information received under domestic law.

Some staff may be familiar with how to deal with information received via exchange of information, however in many cases the CbC reports will be the first time they have seen data received under treaty. When seeking to ensure appropriate use, the rules on confidentiality should be outlined at the same time and the two topics seen as inseparable. All references to appropriate use in the following chapter apply equally to confidentiality.

Linked to these topics is effective use. Effective use is making the most of the CbC reporting information and exploiting it to its full. This is a responsibility on tax administrations to use the data as best they can, thereby ensuring that the expense and effort undertaken to access the data is worthwhile.

For confidentiality, appropriate and effective use, training and guidance are key elements of this and can be used to upskill staff.

Training

In order to ensure and maintain appropriate use of the CbC data, tax administrations must have in place the right types of guidance and training.

Training can be divided into two broad types, online and face-to-face. Both have advantages and disadvantages:

Face-to-face

Advantages	Disadvantages
Training is targeted to the people invited	Resource intensive
Ability to deal with questions and issues in real time	Only a limited number of staff can attend
Able to provide greater detail and tailor to the audience	Lack of coverage for new staff who miss training

Face-to-face training involves specialists delivering a training event to staff. This type of training enables the tax administration to target the training at particular staff and control who is trained. Face to face training is typically more detailed and can be tailored to the audience attending. This means that the training can be more bespoke and focus on areas that the participants are interested in.

For example, the UK delivered face-to-face training but changed the format to reflect the experience of the audience. When training transfer pricing risk assessors with a high level of experience, sections on risk assessment were prioritised, and the background of Action 13 was of less importance as these were very experienced staff. Face-to-face training gave the UK the flexibility to tailor the training to the audience.

Face-to-face training also allows for real time feedback from the attendees. The questions that are received help to highlight the topics that colleagues may struggle with or where the training needs to be strengthened. This means that the training product can be developed and refined to build a better product.

While face-to-face training is an excellent option it is resource intensive, not just for the presenters but also for staff, especially for those who have to travel to attend. It is also less flexible, meaning that staff have to attend at a set time and those who miss an event may not be able to attend another. Unless the events are repeated regularly, new staff miss out and this can create a knowledge vacuum.

Online Training

Advantages	Disadvantages
Able to reach a wide audience	Can be difficult to ensure staff undertake the training
Available to new staff	No facility to clarify topics or answer questions
Once written, the resource impact is low	Unable to adapt the training to suit the audience

Online training is more flexible and allows tax administrations to reach a wider audience. Once written, the training can be accessed and used without the need for additional resource. The online training can be accessed by staff at any time, so new staff can make use of it, without having to wait until the next face-to-face session is run. Online training allows for a record of who has undertaken the training to be maintained. This is especially useful where access to the data is dependent on undertaking the training.

Online training is best suited to simpler topics and ones that can be broken down into manageable sections. More complex topics that require explanation are less suited to this method. Unlike face-to-face training, there is no scope to flex the topics to suit the audience or react to questions.

The best practice is to use a combination of the two types of training to ensure that the maximum number of people receive the training and it is pitched at the right level.

Whichever method is chosen, or if a combination approach is used, the message throughout the training should be to focus on the allowable uses of the CbC reports.

The OECD also provide training courses (<https://www.oecd.org/tax/tax-global/e-learning.htm>) (OECD website, 2020b) that can be accessed by tax administrations via the Knowledge Sharing Platform (KSP).

Guidance

Guidance for taxpayers has already been addressed in the chapter on filing of CbC reports. In this chapter the focus is on guidance for tax administration staff on appropriate use. As with the approach to training, there is no one method for providing useful and effective guidance for staff. Instead, a combination of approaches is likely to be most effective.

Most tax administrations will have technical guidance which they make available to specialists and taxpayers. CbC reporting will be a part of that and will typically fit within guidance on international issues. Within the guidance it is important to spell out clearly what the CbC reports can be used for and the restrictions on their use.

In addition to technical guidance, many tax administrations produce internal guides for their staff which provide a deeper analysis of technical issues. These technical notes often have a more limited distribution as they are targeted at specialists and advise how to risk assess or deal with some of the more complex technical issues.

When to deliver training and guidance

The timing of the delivery of the training or guidance will depend on the product. For key messages such as appropriate use and the principles of CbC reporting, an early delivery is desirable. Appropriate use training should always be delivered before the CbC reports are made available to specialists.

Risk assessment guidance and training should also be delivered prior to the CbC reports being made available. This topic is likely to change over time as tax administrations understand more and thus, will be able to refine the products. This topic is best addressed by staff within customer

facing teams, such as those who work with large taxpayers. It is good practice to keep policy staff sighted so that the guidance reflects the latest developments and is technically correct.

Ensuring Appropriate and Effective use of CbC data

The most effective way to ensure appropriate use is to control access to the data and limit access to only those staff who need to see it. The following set out some approaches that have been successfully adopted by IOTA tax administrations:

- Limiting the access to a small team of staff. This effectively limits the number of people who will see the CbC reports and so misuse of the CbC reports is less likely.
- Limiting access only to Competent Authorities. As the data is often treaty protected, the Competent Authorities have the expertise to understand the limitations of the data.
- Using controlled access folders to store the information which limit the users who can access the data.
- Maintaining a record of staff who have received the relevant training. Access to CbC information is only permitted once the training has been completed.

Case Study – the UK approach to ensuring appropriate use

The responsibility for ensuring that CbC reports are used appropriately is the responsibility of the UK CbC policy team. This team works on exchange of information and includes Competent Authorities. At an early stage, HMRC decided it wanted the CbC reports to be available to case teams to use within their risk assessments. The challenge was to ensure that the appropriate use conditions could be enforced.

The key considerations for the UK were:

- Training a large number of staff and building in a contingency for staff turnover
- Distributing CbC reports to all Large Business case teams securely
- Providing an analysis tool for the case teams to effectively use the CbC reports

The UK has a very large tax authority with a large footprint throughout the UK so this had to be factored into the plans. The team decided to set up a series of specialist points of contact or SPOCs in each region. The SPOCs were given detailed training on CbC reporting and appropriate use. The SPOCs were provided with a slimmed down version of the training, which they then rolled out in their regions. Having received the enhanced training, the SPOCs would answer queries and offer help to their local staff, escalating problems if needed.

The policy team also wrote on-line training which had to be completed by all staff who had received the face-to-face training before they could be given access to the CbC reports.

The UK uses controlled access folders to store securely all customer information. The folders can only be accessed by the case team for that particular customer. This provided a secure way to distribute and store the CbC reports, enabling access to be controlled and monitored.

Given that the UK wanted case teams to make the maximum use of the CbC reports, providing the reports in a readable format was key. The UK worked with internal stakeholders to design a tool that used Excel to convert the XML file into a readable format. The UK added some analysis

to allow the case teams to fully exploit the reports. Examples of some of the screens available in the viewing tool can be found in Annex 3.

Set up of the UK system

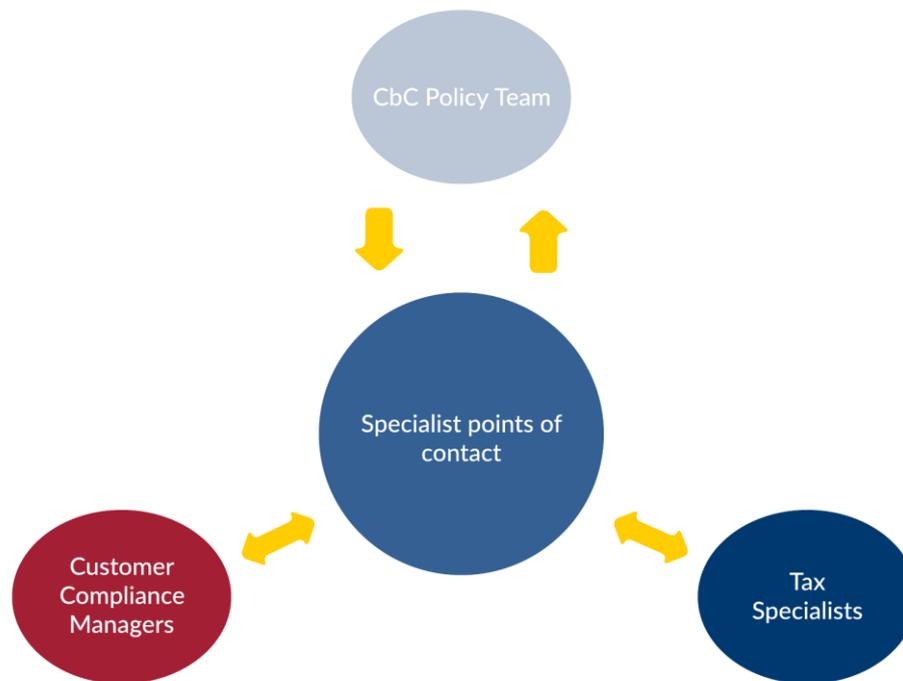


Figure 7: Set-up of the UK system

Description of each stage

CbC Policy team

- 2 – 3 people – the top of the feedback loop
- Implement legislation and write guidance
- Work with OECD
- Design training and implement and ensure appropriate/effective use measures.

Specialist points of contact

- Direct line of communication to policy teams
- Deliver key messages and feedback issues raised by case teams
- Deliver face to face training

Customer Compliance Managers

- Deliver key messages to their taxpayers
- Provide feedback from taxpayers on issues

Tax Specialists

- Undertake CbC risk assessments
- Review outputs from risk profiles
- Raise concerns from taxpayers

CbC Risk Assessment

Introduction

CbC reports contain a wealth of useful information on the structure of an MNE Group and the global activities of the group. When risk assessing for transfer pricing and BEPS transactions there is no one approach that works all the time. It is important to pick the right method for the data source.

CbC reports can be risk assessed in a number of ways, but they broadly fall into two categories:

- Manual risk assessment – looking at one CbC report at a time.
- Risk profiling – using data analytics to profile a number of reports at one time. This can be sub divided further by using the profiling to look for trends within a sector or data set.

Both approaches have advantages and disadvantages and the number of CbC reports received will be a factor in any decision. If a country receives relatively few reports, building the capacity to profile multiple reports may not be worthwhile.

The tables below set out some of the advantages and disadvantages of both approaches.

Manual

Advantages	Disadvantages
Detailed	Can pick up multiple risks in one go
Less likely to get false positives	Unable to spot overall trends
Can pick up multiple risks in one go	Reliant on the expertise of the risk assessor

Table 2: Advantages and disadvantages of the manual risk assessment

Risk profiling

Advantages	Disadvantages
Analysing multiple CbCRs in one go	False positives may arise
Efficient use of resources	Can be difficult to profile for more than one risk
Able to profile for multiple years	Can require complex software and expertise

Table 3: Advantages and disadvantages of risk profiling

In practice, a combination of both methods is likely to be the best way to approach risk assessment and enable the most efficient use of resources.

Manual risk assessment

This approach involves looking at each CbC report on an individual basis. Typically, this will be undertaken by a tax specialist familiar with the taxpayer. When conducting a manual risk assessment of the CbC report it is not necessary to use other information at this stage, for instance previous audit correspondence, but there is certain information which should be considered essential:

- Knowledge of the sector in which the company operates - this is crucial as it may impact on the potential risks identified, for instance the jurisdictions of interest may change depending on the sector.
- Knowledge of the customer as a whole - having some knowledge of the customer's business and structure is helpful to bring the CbC report into focus.

Tax authorities have a number of approaches to the manual review of CbC reports. Below are two approaches that have been adopted by IOTA tax authorities.

Dedicated CbC teams

Some jurisdictions have set up dedicated CbC teams who are responsible for risk assessing the CbC reports. The advantages to this approach are:

- A level of skill and knowledge in relation to interpreting the CbC reports can be quickly built up and centralised. The tax authority also will only need to train a smaller number of staff on the appropriate and effective use of CbC reports.
- The CbC reports can be controlled and access limited to a smaller number of staff. This mitigates the risk of misuse of information supplied under treaty.
- Reports or information produced by the team can then be shared with case teams. In some cases, the CbC team can work the cases in tandem, leveraging their specialist knowledge.

Typically, the CbC team will identify and risk assess a number of CbC reports. This can be undertaken with the help of specialist software or manually. The team will then produce a report, highlighting potential risks and this is shared with case teams.

Where a jurisdiction does not receive a large number of reports this can be a useful option. Additionally, it may be possible for the central CbC team to provide specialist input or work the audits resulting from any risk assessments.

CbC reports provided to case teams

This involves making the CbC reports available to case teams as they become available. The advantages to this approach are:

- Case teams get access to valuable information that can assist them with understanding the potential transfer pricing and other BEPS risks.
- A larger number of staff have access to the CbC reports and this helps to increase the knowledge in relation to CbC reporting.
- A greater number of CbC reports can be reviewed, potentially detecting more risks.

This method works best when there are case teams for a taxpayer and the CbC reports can be shared with them. This allows for a case team to review the CbC report in conjunction with other relevant information.

The main issue with this approach is designing a process to ensure that the CbC reports can be shared securely and the appropriate use conditions are met. Care must be taken to ensure that the data remains confidential and only accessed by case workers who have a legitimate reason to review.

When considering how to train staff, the number of staff who have access to the CbC reports will need to be taken into account. As outlined in the above section on Ensuring Confidentiality and Effective and Appropriate Use, successful approaches have involved training specialists who can then provide the training to multiple staff. This approach has the advantage of establishing experts within tax administration offices who can be used to share key messages at a later date.

Manual risk assessment in practice

A manual risk assessment will start with the CbC report. As the CbC report is provided in XML format, a viewer is needed to transform the XML language into a readable form. A number of jurisdictions have developed tools which take the XML and convert it into an Excel file. The advantage of this approach is that Excel is commonly used and familiar software. It also allows for some limited data manipulation.

The OECD has developed a dedicated viewer called the Tax Risk Evaluation and Assessment Tool or TREAT, which works by taking an XML file and converting it into an Excel file. The TREAT will have additional functionality, such as being able to compare multiple years and display a number of graphs. A number of the functions will be of use to IOTA tax administrations, such as:

- Choosing from a list of risk identification parameters
- Highlighting key mobile functions of the MNE Group and where they are located
- Selecting the jurisdictions of interest most appropriate to a risk profile or jurisdiction

The TREAT has been designed with the input of a number of tax administrations and, while it is aimed at tax administrations who are unable to build their own viewing tool, it is likely to be of help to all tax administrations.

If a bespoke viewing tool is to be designed, jurisdictions should consider adding additional functionality that can aid their risk assessors. The following is not an exhaustive list, but details some of the considerations that jurisdictions have found useful:

- A global summary of the figures on the CbC report. This could indicate, for example, the MNE Group's presence in jurisdictions of interest and the number of entities in the report

- Putting the tax jurisdiction conducting the risk assessment at the top of the display. This allows for a quick review to see where the jurisdiction features in the global picture.
- Ratios, for example, the 19 risk indicators from the OECD Effective Tax Risk Assessment handbook (OECD, 2017a) .

A sample of the pages from the UK viewing tool is shown in Annex 3.

Once a viewable version of the CbC report is available, there is no set way in which the CbC report should be reviewed, however the following sets out some initial considerations:

1. Is the report a primary, surrogate or local filing? This may determine the level of information available within the CbC report and help set the parameters for the risk assessment.
2. What are the levels of activity in your jurisdiction? A minor or small presence/footprint is less likely to be of interest.
3. Does the MNE Group have a presence in any jurisdictions of interest? If so, how much profit is there and how many staff are present?
4. What are the functions present in your jurisdiction (look at Table 2) and do they accord with your understanding?
5. Check Table 3 for any notes or comments that may inform the risk assessment. Details of entities which have “other” ticked on Table 2 will be listed here.
6. What does the split of related party and unrelated party revenues tell you about the business and where it sits in the supply chain?
7. Is IP likely to be important in the business? If so, where is it located and does this make sense?

From this initial stage, a more detailed analysis may follow, if warranted, which may look at areas such as:

- Whether any of the 19 risk indicators are in point. Of particular interest will be mobile activities (defined as holding IP, internal group finance, insurance, purchasing or marketing) located in jurisdictions of interest, with high profits and low staff numbers.
- Whether the CbC report information aligns with the information and local knowledge of the taxpayer in the jurisdiction.
- Using financial data from external databases to build a fuller picture of the taxpayer.
- Analysis of the accounts which can shed light on the group value chains. For example, significant “other” debtors” may indicate intra-group sales and significant “other” creditors may indicate intra-group purchases.

The OECD provides training courses on the use of TREAT that can be accessed by tax administrations via the Knowledge Sharing Platform (KSP) (OECD website, 2020b).

Risk Profiling

Risk profiling involves analysing multiple CbC reports and using ratios, algorithms or set parameters to identify risks within the dataset. Tax administrations will typically have systems in place to analyse taxpayer data, such as tax returns, and some of the same processes may be applied to CbC reporting. Risk profiling has a number of stages:

- Selecting the dataset

- Identifying a profile and refining it
- Analysing the results

Selecting the dataset

With any dataset, the decision will need to be taken as to what part of the data is looked at. For CbC reporting, it is likely that the whole set of reports will be selected. It may be possible in time to identify subsets within this data, for example MNE Groups within a certain sector, or UPEs headed in the home jurisdiction.

When analysing multiple CbC reports, the usual form of the data will be comma separated data/values (CSV). Tax administrations will have access to various programmes that are able to interrogate and manipulate the CSV data.

It is at this stage that errors in the data will need to be taken out, if possible. Not all will be able to be removed, but errors such as multiple currencies or transposed columns can be removed, which will ensure the results are more reliable.

Identifying a profile and refining it

The next key stage will be identifying a risk profile to run on the data. The approach undertaken by most tax administrations has been to ask experienced international risk assessors for ideas. Leveraging the 19 risk indicators from the Effective Risk Assessment handbook (OECD, 2017a) is another excellent source of potential profiles. The main profiles run by tax administrations have focused on:

- identifying mobile activities,
- in jurisdictions of interest,
- with significant profits
- and a low number of staff. The number of staff can be adjusted depending on the number of hits achieved.

The lack of staff is used as a proxy for lack of substance. This can also be combined with indicators such as where the operating margin of the group as a whole is higher than the home jurisdiction.

Additional parameters may be added to ensure that only areas where there are significant profits are targeted. If the profit in a jurisdiction of interest is low, then it is unlikely to be worth further investigation as there would not be much profit to reallocate back to the home jurisdiction. This part of the process, of refining the profile, is key to making sure that worthwhile cases are identified. Tax administrations should keep in mind the “de minimus” levels to which they operate and ensure that the potential tax at stake is over a certain level.

For example, a profile could be run to identify MNE Groups with a presence in a jurisdiction of interest where the profit per employee is over €5,000,000. This may be suitable for the large business segment, but may miss a number of smaller cases. These smaller cases may have tax at stake below a large business threshold but above the medium size business threshold. Best practice is to run the analysis on the whole population and share the results with all internal

stakeholders who may have an interest. This avoids running multiple profiles and wasting resource.

Once the profile is run, tax administrations will need a system to determine which MNE Groups to target first. Some tax administrations use a points-based system to score the results, others take the cases with the highest values. Where more than one profile is undertaken, tax administrations will typically blend the results to identify the ones with the highest potential risk. It is good practice to critically review the outputs from such profiles. Testing of the outcomes, including some random testing, can be an effective way to monitor effectiveness.

Analysing the results

Once the results have been obtained, additional work will be needed to check the results. The main reason for this is to “sense-check” the results and ascertain if any obvious false positives have arisen.

CbC reports have a number of known issues, such as dividends possibly being included within profits. For example, by using Table 2 and looking at the functions of an entity in a jurisdiction of interest, it may be possible to identify shareholding companies which may be the recipients of the dividends. Where the person reviewing the results has some knowledge of the MNE Groups, it may also be possible to spot entities which have been considered before, or where it is known there is no risk.

A further sense check is to see if MNE Groups that are expected to be included actually are. A useful test is to check the results for a known high-risk entity that should, based on the knowledge of the tax administration, appear in the results. If it does not, this may indicate an issue with the profile. It can also be an issue with the CbC report. IOTA tax administrations have identified instances where the CbC report has been incorrectly completed, for example, where mobile activities that should be shown have been excluded. This means that a profile looking for mobile activities in a jurisdiction of interest will not be shown.

Once a set of potential risks has been identified, tax administrations will need to consider how to share the results. The method for this will depend largely on the set-up that the tax administration has adopted. Where a central team is dealing with the outputs, this is likely to be easier to manage. Where profiles are to be shared with case teams, a more considered approach is needed. Tax administrations will need to judge the frequency with which the information is shared, with whom and perhaps most importantly, establish a feedback loop to judge the effectiveness of the profiling.

Profile ideas

The following list is not meant to be exhaustive, but rather some ideas. The 19 risk indicators are also a fertile ground for profile ideas:

- High levels of profit in a jurisdiction of interest with low substance, using staff numbers as a proxy for substance.
- A low global effective tax rate
- To check the relationship between the profit margin in a country and the profit margin in the rest of the corporation:

(Profit margin (MNE) - Profit margin (Country analysed)) * turnover

- To verify the activity in a jurisdiction: Number of employees and tangible assets in a jurisdiction compared with the activity and profitability of the MNE.
- To spot whether there are tax jurisdictions that have considerably higher profit margins:

$$\frac{(\text{Weighted average Outliers}) - (\text{Weighted average non-Outliers})}{\text{Standard deviation non-Outliers}}$$

Case study - The Italian approach

The Italian CbC reporting risk assessment procedure is based on a centralised approach. The main steps are:

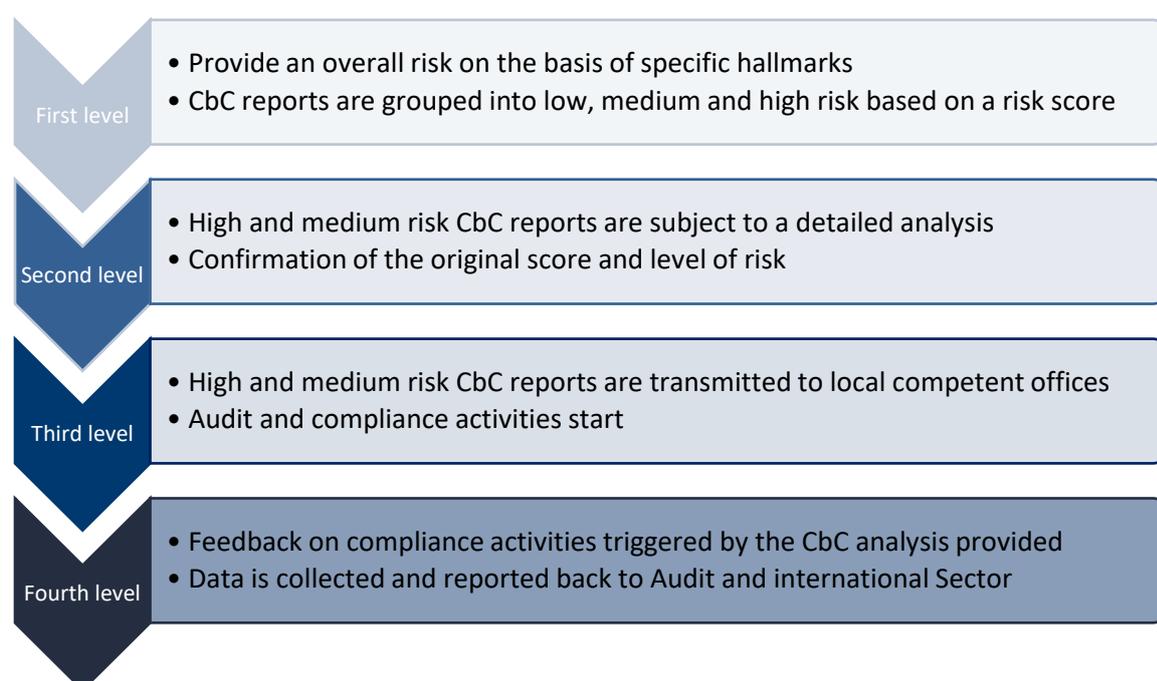


Figure 8: Steps in the Italian risk assessment process

Once the validation process has been completed, the IT partner transmits the CbC reports to International and Cooperation Offices in an Excel format. These files are then processed and analysed by a specialist data analyst.

The analysts take the data and perform the following tasks:

- Create two databases, one for inbound and one for outbound CbC reports
- Insert the OECD key ratios;
- Convert the currency;
- Format the data;
- Detect and display outliers;
- Score the risks (high, medium, low)

Some operations are performed using the free and open-source statistical tool named «R language for statistical computing»⁵: R helps to identify key ratios outliers and anomalous values and generates for each reporting entity multidimensional perceptive maps in order to assist in selecting risks.

Outliers are detected through the use of univariate and multivariate statistical indicators (Exploratory Data Analysis).

For each reporting entity an Excel file is produced with key ratios and the perceived level of risk, either low, medium, or high.

The Excel files are transmitted to a Central Audit Office in charge of risk assessment activity where reports are further assessed in order to confirm the level of risk identified by the data analysts.

If a high or medium risk level is confirmed, the CbC reports are transmitted to local competent offices for audit and compliance activities.

At the conclusion of the compliance activity, the results are transmitted back to the Central Audit Office for follow up and monitoring activities. This enables the Italian Revenue Agency to monitor the effectiveness of their programme and make improvements.

Function and responsibility at each level

Steps	Office	Who	Skill
First level	International and Co-operation Offices Risk Assessment and Special Tax Audit Office	Specialised officer Specialised officer	Data analysis Risk assessment and outlier detection
Second level	Risk Assessment and Special Tax Audit Office	Specialised officers	Risk assessment and outlier detection
Case management	Local tax offices	Specialised tax inspectors	Audit and compliance activities
Follow up and monitoring	Risk Assessment and Special Tax Audit Office	Officer in charge of coordinating CbCR for follow up and monitoring	Coordination centre

Table 4: Functions and responsibility at each level

⁵ Available at the link <https://www.r-project.org>

Case study - The Norwegian approach

Norway uses a software product to undertake analysis of the CbC reports. Norway uses Oracle Business Intelligence for this purpose, and have developed a "dashboard" with selected ratios and formulae to detect potential BEPS risks. The dashboard is used by auditors carrying out audits and specialists who work with the largest businesses.

To obtain access to the CbC reporting data in the dashboard, all staff need to document that they work with transfer pricing or MNEs. In addition, staff have to complete an e-learning about CbC reporting before they are granted access. In this way, Norway ensures that the appropriate condition is met.

Case study - The UK approach

The UK sought to maximise the benefits of CbC reporting in two ways:

- Make the CbC reports available to case teams to use in their risk assessment processes
- Undertake central profiling, to provide potential cases to teams for further risk assessment

The UK approached this by setting up a central team to oversee both the distribution and risk profiling of CbC reports. Each part of the team had certain key responsibilities to ensure the UK achieved the maximum benefit from the reports.

Distribution team

- Check for errors within the CbC reports which may limit matching to a UK customer. If an issue is found, for instance a missing TIN, then the customer is asked for a correction.
- Link the CbC reports to UK customers. This is an automated process, using HMRCs data and analysing it alongside CbC data
- The CbC reports are distributed to secure customer folders to which only the case team have access.
- Any reports not matched are reviewed and either manually matched, or the UK will seek to identify the issue. This may mean approaching the sending tax administration for assistance.

Risk profiling team

- Working with stakeholders to develop new profiles
- Sharing the profiles with case teams
- Keeping a detailed record of the profiles undertaken to ensure no duplication
- Gathering feedback on the profiles run so far, what has worked and what has not worked so well.

The advantage of this approach is that the UK can control the process more efficiently by channelling it through one team. When requests for new profiles come to the team, they can ensure that it is not something that has been run before and that it is something that is a permitted use of the data. If a case team has not received a CbC report they were expecting, again the request is directed through one team. The central team also means that, as HMRC's priorities change, the team can try and design profiles to suit this.

The manual triage approach

Both manual risk assessment and risk profiling are excellent ways to identify CbC risks. The UK is currently running a trial to explore the use of a hybrid approach, that is a mix of profiling and manual risk assessment.

The thinking behind the approach is that it would be very useful to examine all the CbC reports, but given the number received, to do so in depth would not be possible. The UK has developed an approach that enables a high-level overview to be undertaken on a large number of CbC reports. This approach will only spot large aggressive tax structures and is not intended to be a thorough review; however, it is:

- A way to review a large number of CbC reports
- Can be undertaken by staff with less international knowledge, thereby freeing resource
- An effective way to test whether profiling is working

It is important to note that this approach will not catch risks such as:

- Mis-pricing of routine returns, for example, under rewarded routine distribution functions
- Low taxed transactions that are masked by higher taxed transactions in a jurisdiction
- Mis-pricing where the group's transfer pricing policies are skewed by non-tax drivers

This approach will be most effective when used alongside both an automated and manual risk assessment approach.

The manual triage approach follows nine set stages and below is an overview of the stages:

1. Eliminate loss makers/MNE Groups with low profit margins

The idea is to focus on MNE groups with high net margins and those with losses or low margins are less likely to engage in BEPS activity.

2. Identify all jurisdictions with a significant share of consolidated net profits

This step is looking for aggressive BEPS activity which results in significant profits sitting in a jurisdiction. The level of profits chosen will depend on the individual jurisdiction, but a 5% to 10% minimum threshold will narrow down the jurisdictions.

3. Identify those that look commercial

Typically, this will be where profits are in jurisdictions with a substantial presence. Risk assessors will consider the number of employees, the range of functions and also commercial considerations.

4. Identify those with low or zero tax rates

Where the profits are located in high tax jurisdictions, this is less likely to be the result of aggressive profit shifting. The rate needs to be chosen by the risk assessing jurisdiction.

5. Identify any jurisdiction of interest with significant profits despite a higher tax rate

Jurisdictions of Interest (JOIs) are jurisdictions with favourable tax regimes or low tax rates. Where there is a JOI with high profits and a high apparent tax rate, further consideration should be given to the activities listed as being present. Where mobile activities are included, it should remain within scope for the next step.

6. Consider the functions and level of substance

For the remaining jurisdictions, consider the listed functions and how they are likely to make their profits. Consideration should also be given to the number of employees and whether this is commensurate to the level of profits.

7. Compare the home jurisdiction results with the overall Group's results

This step is only considered if there are one or more jurisdictions that pass the above steps. Review the home jurisdiction's CbC report to assess the level of functionality and substance. If the home jurisdiction is rich in functions, then proceed to a more detailed review.

8. Consider the jurisdictions of interest and known planning techniques

Consider the filtered jurisdictions and consider any cross-border planning techniques that the JOI is known to feature in.

9. If merited, proceed to a more detailed review

If merited, consider a more detailed review using additional data held. At this stage, a more experienced risk assessor will take over. This is to check that the risk review has arrived at a sensible outcome and, if so, to determine if the case is suitable for an audit.

To test this approach, the UK trained a small number of staff with limited experience of CbC reporting and transfer pricing. These staff undertook the initial profiling using the nine steps. The cases highlighted as worth further investigation were then examined by an experienced risk assessor. This process is in the early stages, but results have been very encouraging. As highlighted above, this should not be seen as the main way CbC reports are risk assessed.

Multiple year analysis

Tax Administrations will have access to more than one year of CbC reports. This lends itself to greater analysis and more efficient targeting of risk. By looking at multiple years, a tax administration can plot the changes in the group and identify whether results occur in only one year or there is a trend. This multi-year analysis provides a greater understanding of the MNE Group and the potential risks it may pose. A MNE Group's results will typically fluctuate over

time and, looked at in isolation, may cause a false conclusion to be arrived at. By examining the trends over a period of time, a more balanced and nuanced view can be taken.

Many of the 19 risk indicators in the OECD Effective Risk Assessment Handbook can be far more revealing when looking at more than year. For example:

- a change in the MNE Groups footprint in a country over time
- the movement of mobile activities such as procurement, intellectual property and group finance. The jurisdictions that the activity is moving from and to can be key.
- Changes in the level of assets in a jurisdiction may suggest a change in activity or function.
- A new activity occurring within the MNE Group, for instance a new IP holding entity could indicate new or acquired IP.
- Monitoring the functions and activities listed as being present in a jurisdiction.
- Plotting the results over a period of time
- Identifying instances where the group profitability is maintained or increases, while the profitability of the local entity decreases.

These changes can be identified by using a combination of Table 1 and Table 2. In many instances the most effective challenge can be to a new structure or activity, so monitoring the MNE Group will help identify these. For example, identifying a new procurement hub and asking for evidence to support the stated functions, can be more effective than seeking to challenge a well-established structure.

Strategic use of CbC reports to identify high-level indicators

A further use of CbC report profiling is to identify strategic indicators. In comparison to the above methods which seek to find risk, this method looks for trends that may inform future policy. This strategic risk approach is best undertaken when analysing multiple years of CbC reports for an MNE Group. The focus can be on a single MNE Group or on the population as a whole. The types of indicator that can be identified with this approach are mostly linked to MNE Group behaviours and seeking to ascertain changes at a macro level.

CbC reports can be used to detect changes in global trends. For example, it is possible to monitor the changes in profit levels or the functions within jurisdictions of interest. Are they increasing or decreasing and are these changes a response to tax administrations challenging BEPS behaviour? Tax administrations can also identify the main jurisdictions their UPEs are active in, what those functions are and whether they have changed.

Further analysis can be undertaken to identify where UPEs undertake key functions such as holding IP and also track this over a number of years. For example, such an analysis may show a tax administration that MNE Groups in a certain sector are all using the same jurisdiction for a particular transaction.

Use of CbC with other data sources

Tax administrations hold and have access to multiple sources of data that may be used alongside the CbC report to help identify risks. While not an exhaustive list, the following are some of the key sources of information available:

- Action 13 documentation, such as master files, local files and notification data
- Financial data such as consolidated accounts, annual accounts
- Data held on the taxpayer such as audit reports and information from previous audits.

Overview of the local file and master file

The CbC report provides financial data on the MNE Groups activities, however it lacks a narrative. The master and local files fill in these gaps. The Action 13 reports sets out a template for the master and local file, although as neither are minimum standard, jurisdictions may ask for additional information.

The master file is intended to give an overview of the group and its key drivers. These include:

- Organisational structure
- A description of the supply chain of the group's five largest products/services
- A description of the main geographic markets for the group's products/services
- A general description of the group's overall strategy for the development of, ownership and exploitation of intangibles, including the location of the principal R&D facilities
- An overview of the intercompany financial activities.

By contrast, the local file focuses on the local entity and the local jurisdiction. In this regard it is a more granular analysis of the group's activities within a jurisdiction. The local file will typically include:

- A description of the management structure of the local entity and details of the business strategy
- A description of each controlled transaction
- Copies of all material intercompany agreements concluded by the local entity
- Details of the transfer pricing method for each transaction and the reason for choosing it

Full details of the format of the master and local file can be found in the Action 13 report <http://www.oecd.org/tax/transfer-pricing-documentation-and-country-by-country-reporting-action-13-2015-final-report-9789264241480-en.htm> (OECD, 2015)

Case study - Belgian tax administration approach to the local file

Belgium has adopted the local file requirement and developed a standardised form which contains the implementation of the local file as described by the OECD. This form contains a number of tables in which the local entity is required to fill in their figures or a narrative.

Belgium asks MNE Groups to do the reporting on the level of the business units within the company, but only if these business units do exist on the level of reporting. This is an important distinction to establish a correct view on the activities of an individual company. Without this,

there is a danger of getting a mix of functionality, for example, a contract manufacturer together with a limited risk distributor.

The following shows an excerpt from the Belgium guidance on local files:

Preliminary notes

This statement is intended for any Belgian group entity which, as a result of exceeding one of the criteria stipulated in Article 321/5 ITC 92, is obliged to submit a local file with its tax return pertaining to the financial year to which this tax return relates.

The local file consists firstly of a form containing general company information to be completed by any Belgian group entity which exceeds one of the criteria stipulated in Article 321/5 ITC 92, and secondly a detailed information document per business unit which has exceeded the threshold for cross-border transactions with group entities in the last completed financial year.

With regard to the verification of the threshold, the following elements should be taken into account:

- only cross-border transactions with group entities are considered, meaning that transactions between Belgian group entities do not need to be included;
- the amount which should be compared with the threshold is the sum of the following cross-border transactions with group entities = goods transactions (B3) + service provision transactions (B4) + financial transactions (B5) + other transactions (B6).

The term business unit is clarified in Article 321/1 ITC 92. In addition, it should be emphasised that the specific completion of this terminology should be in accordance with the existing organisation and/or reporting structure of the company concerned. It should therefore in no way be the intention to split units purely for the purpose of drawing up this information document. If in such cases no business units exist within the company concerned, then it is sufficient to complete one line per table in the information document which will then include the full figures of the company concerned.

Figure 9: Excerpt from the Belgium guidance on local files

The following table sets out key information on the UPE. This information includes:

- the number of business units within the local company,
- presence of a foreign head office or foreign permanent establishments
- as well as some check-the-box information about restructuring.

<i>Key data (A7)</i>	
	Taxable period
Ultimate parent entity	
Name of the ultimate parent entity
Country code of the ultimate parent entity
Tax identification number of the ultimate parent entity
Reporting structure	
Number of business units within the company
Number of these business units for which the threshold of related transactions has been exceeded
Foreign head office and foreign permanent establishments	
Your company has foreign permanent establishments	<input type="checkbox"/>
Country codes where the foreign permanent establishments are located
Your company is a Belgian permanent establishment of a foreign head office	<input type="checkbox"/>
Country code of the foreign head office
Tax identification number of the foreign head office
Restructurings	
Your company has been the subject of a takeover, merger, or demerger during the current assessment year	<input type="checkbox"/>
Your company has acquired another company or a company activity during the current assessment year	<input type="checkbox"/>
Your company has experienced modifications to the shareholder structure within the group during the current assessment year	<input type="checkbox"/>
Your company has been involved in a transaction pertaining to an intangible fixed asset during the current assessment year	<input type="checkbox"/>

Table 5: Key information that the local entity has to provide about the ultimate parent entity

A further table gives an overview of the existing level of information about their transfer pricing policy:

- yes or no on the existence of a methodology/principle,
- a framework agreement/model contract
- and a transfer pricing study.

Transfer price methodology and studies per business unit and per nature of transaction (B10)

Identification of the business unit	Nature of transactions	Methodology or principle	Framework agreement or model contract	Transfer price study
.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Table 6: Key information that the local entity has to provide on their transfer pricing policy

Risk Indicators that can be identified from supplementary information

Many of the 19 risk indicators commonly used for risk assessing CbC reports can be further investigated by using additional information in conjunction with the CbC report. While not an exhaustive list, the following highlights potential risks that can be quantified or even disregarded using the supplementary information:

Footprint of the local entity in the jurisdiction

The CbC report will provide a high-level view of the MNE Group's presence in a jurisdiction. By combining financial data such as local financial reporting and consolidated reports, a more detailed picture can be established.

Effective tax rate

From the CbC report it is possible to calculate an effective tax rate. This rate will be influenced by a number of factors which may mean it is not a true representation. Using the financial data, such as consolidated accounts or local tax filings will enable a truer ETR to be calculated. This is especially useful to confirm whether the local entity's ETR, as shown on the CbC report, is accurate.

Business restructurings

The CbC report may show a business restructuring but it is likely to require careful interpretation of the report. For instance, comparing Table 2 data across years may show this, as may changes in the values reported in Table 1. An easier and more reliable way would be to refer to the information contained in the master and/or local file.

Analysis of the group's accounts may also show this, especially documents such as the annual report.

Onward sharing of CbC data and analysis

As discussed in the section on exchanging CbC reports, the process is reliant on a legal instrument to facilitate the exchange. A key part of the exchange process is onward sharing. This principle allows a jurisdiction which has received information under a treaty to share it with a third jurisdiction under certain conditions. The conditions vary depending on the treaty but can be summarised as:

- Asking permission of the sending country
- Notifying the sending country that you intend to share the information unless they object.

A key point is that onward sharing is not permitted by all exchange instruments.

CbC reports when received from another tax administration are received under a treaty and therefore subject to the same restrictions when it comes to onward sharing. This situation may seem strange when jurisdictions are talking about the same report, but it does mean that careful consideration needs to be given to CbC discussions between jurisdictions.

Example

All the jurisdictions in the example exchange CbC reports under an instrument that allows for onward sharing with permission.

Jurisdiction A receives a CbC report under exchange from jurisdiction X. Having risk assessed the CbC report, jurisdiction A believes that they have identified a risk that is relevant to jurisdiction Y. Despite all parties having a copy of the CbC report, jurisdiction A cannot discuss the report with jurisdiction Y unless they ask for permission from jurisdiction X.

While this situation seems odd, it is a result of the way the underlying legal framework operates. CbC reporting means that, for the first time, all jurisdictions are able to see the same information, which may cause issues. While care needs to be taken, however it is not necessarily an impediment to multilateral risk assessments. Work such as the International Compliance Assurance Programme (ICAP), the JITSIC CbC project and the work undertaken by the FTA CbC reporting group, demonstrate that multilateral risk assessments can use the CbC report as a base. Jurisdictions can explore the use of Memorandum of Understandings (MoUs) to facilitate onward sharing of CbC reports.

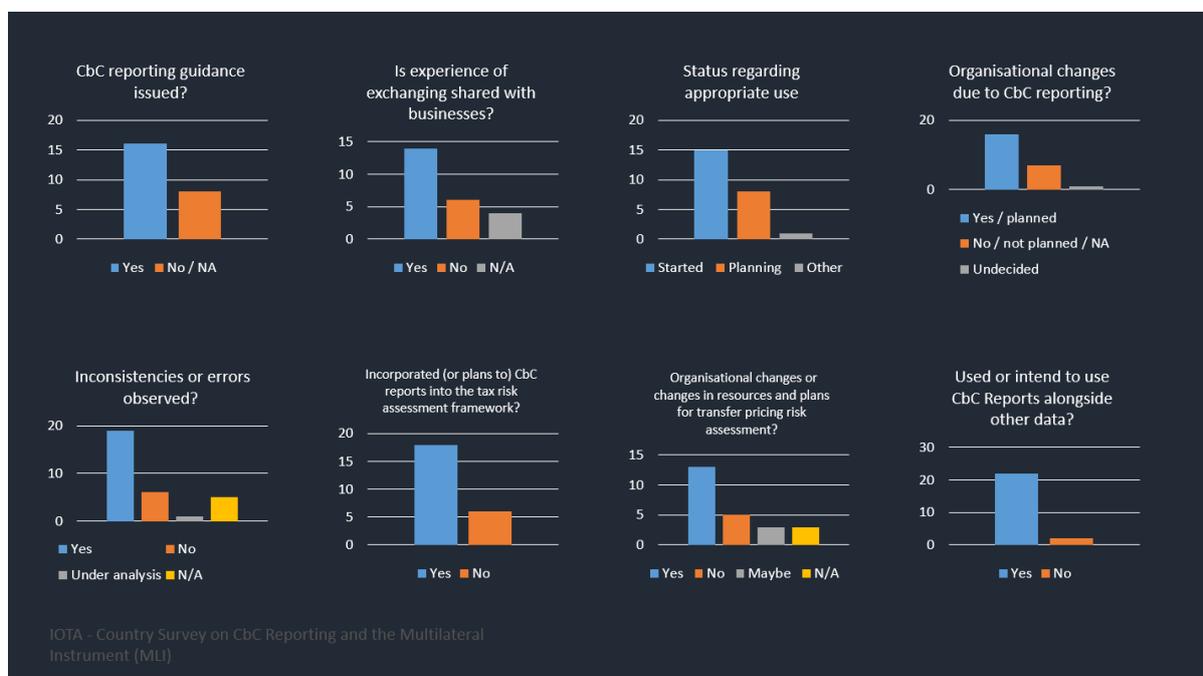
This is a complex area and it is recommended that jurisdictions seek expert assistance from their exchange of information teams and Competent Authorities.

Annexes

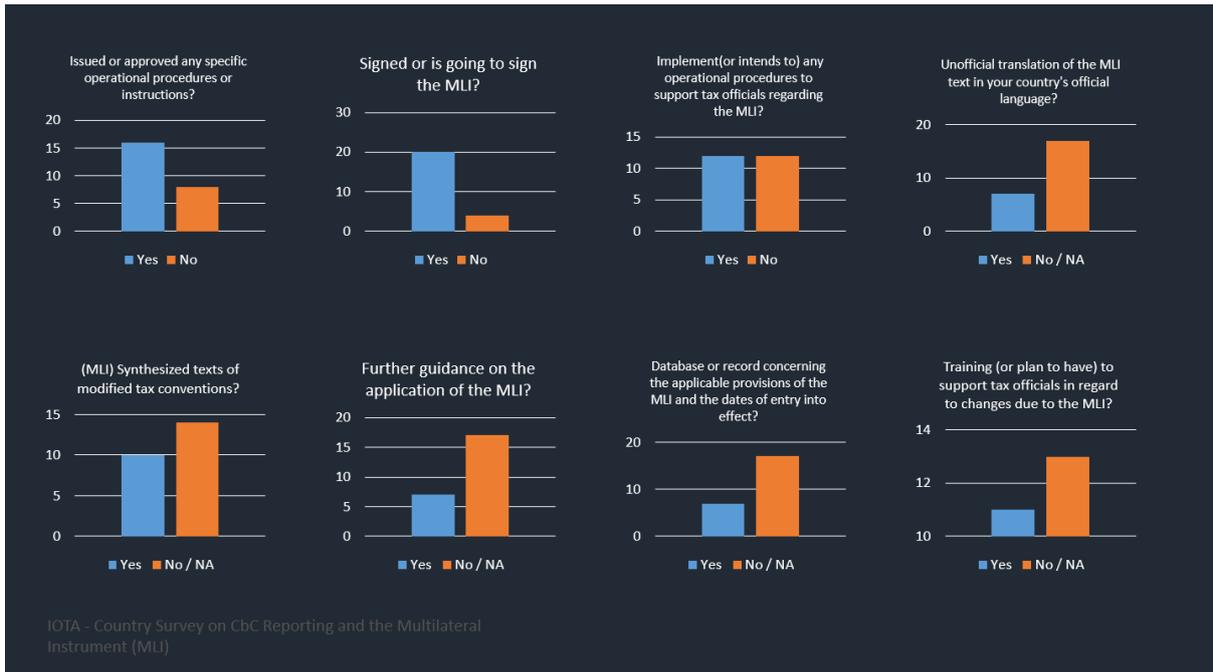
Annex 1 – Summary of IOTA Survey Results



Graph 2: Results of IOTA Country Survey on CbC Reporting and the Multilateral Instrument (MLI)



Graph 3: Results of IOTA Country Survey on CbC Reporting and the Multilateral Instrument (MLI)



Graph 4: Results of IOTA Country Survey on CbC Reporting and the Multilateral Instrument (MLI)

Annex 2 – Example of Notification Template

Country – by – Country Reporting Notification of intention to file

Group Name:

Reporting Period End Date:

Name of Filing Entity:

Filing Jurisdiction:

Filing Entity Tax Reference:

List of all XX Constituent entities:

***Including dormant companies and permanent establishments and partnerships**

XX Entities*	Unique Tax Reference

Continue as required

Figure 10: Example of a notification template

Annex 3 – UK CbC Viewing Tool

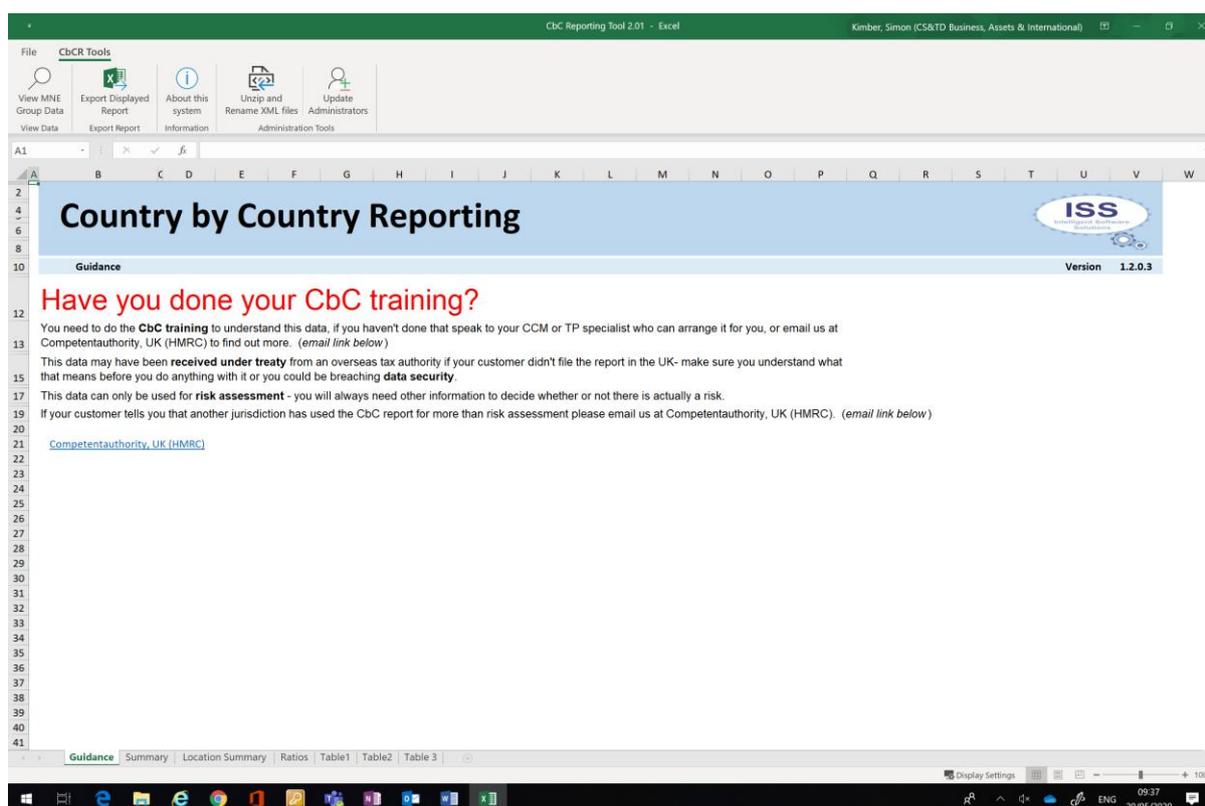


Figure 11: Page from the UK Viewing tool

Name of MNE Group:										
Fiscal year concerned:										
Currency used:										
File Type:										
Transmitting Country:										
Tax Jurisdiction	Revenues			Profit (loss) before income tax	Income tax paid (cash basis)	Income tax accrued - current year	Stated capital	Accumulated earnings	Number of employees	Tangible assets other than cash equivalents
	Unrelated party	Related party	Total							
Global numbers										
UK numbers										
Number of countries										
Number of entities										
Number of Dual resident entities										
Number of Stateless entities										
Entry in Table 3 (7)										
Entities in Jurisdictions of interest										
Dual resident										

Figure 12: Page from the UK Viewing tool

Annex 4 - The OECD Model Template for a Country-by-Country Report

Name of MNE Group: Fiscal year concerned: Currency used:										
Tax Jurisdiction	Revenues			Profit (loss) before income tax	Income tax paid (cash basis)	Income tax accrued – current year	Stated capital	Accumulated earnings	Number of employees	Tangible assets other than cash or equivalents
	Unrelated party	Related party	Total							
1.										
2.										
3.										

Table 7: CbCR Template Table 1 – Overview of allocation of income, taxes and business activities by tax jurisdiction

Name of MNE: Fiscal year concerned:														
Tax jurisdiction	Constituent entities resident in jurisdiction	Tax jurisdiction of incorporation if different from residence	Main business activity/activities											
			Research and development	Holding or managing intellectual property	Purchasing or procurement	Manufacturing or production	Sales, marketing or distribution	Admin. 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.	1.													
	2.													
	3.													
2.	1.													
	2.													
	3.													

Table 8: CbCR Template 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:

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

Table 9: CbCR Template Table 3 – Additional Information

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IMPLEMENTATION OF “COUNTRY- BY-COUNTRY REPORTING” INTO INTERNAL RULES AND PROCEDUES

REPORT BY SUBGROUP 3 OF IOTA FORUM ON IMPLEMENTATION
OF MEASURES TO COUNTER BEPS



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