Federation of European Accountants

IDEAS

Public Country-by-Country Reporting

A template for disclosing corporate tax information

HIGHLIGHTS

Currently, there are many European and international initiatives that propose public Country-by-Country Reporting (CbCR) of tax relevant information for multinational companies. We have created a template that outlines the basic information for such companies to disclose when issuing a public country-by-country report. Our proposed template aims for companies to provide useful information required by stakeholders whilst minimising the costs of preparation and the risk of disclosing economically sensitive information. This fits in the Federation's efforts to constructively contribute to the international tax debate and help restore public trust in the tax system.

1. State of Play

Global transparency requirements and initiatives for corporate tax are increasing, such as:

- mandatory disclosures to tax administrations – UK Disclosure of Tax Avoidance Schemes (DOTAS); US Foreign Account Tax Compliance Act (FATCA)
- mandatory public disclosures – US Dodd-Franks Act, EU Capital Requirements Directive IV (CRD IV)
- national adoption of other disclosure initiatives – Extractive Industries Transparency Initiative, and other national initiatives for tax disclosures as a corporate social responsibility (CSR) issue[1]
- exchange of information between tax administrations – Organisation for Economic Co-operation and Development (OECD) Standard for Automatic Exchange of Financial Account Information, EU Directive for Administrative Cooperation
- tax disclosure on a voluntary basis of the businesses already going beyond requirements (tax disclosures as a CSR or risk management issue)[2]

Key amongst these transparency initiatives is country-by-country reporting of corporate tax information. There are currently many European and international developments in this field:

- the European Parliament has repeatedly called for public country-by-country reporting of tax information
- OECD/G20 have fully endorsed disclosure of country-by-country reporting information to tax authorities as part of the Base erosion and profit shifting (BEPS) Action 13
- country-by-country reporting is included within the proposed Anti-Tax Avoidance Package – the EU Directive on country-by-country reporting received political support at ECOFIN

[1] Such as in Australia, China, Spain and the United Kingdom

[2] Such as Vodafone, Coca Cola HBC, Coöperatieve Rabobank, Lush and SABMiller

- 15 countries worldwide have already introduced country-by-country reporting (or whole BEPS Action 13) in final legislation[3]
- European Commission has published an EU legislative proposal on public country-by-country reporting on 12 April 2016, which is now in the legislative process

2. A common reporting format

The objectives of public country-by-country reporting of tax information are to:

- provide confirmation that businesses are complying with their local corporate tax obligations in all of the jurisdictions in which they operate
- form part of a corporate communication strategy to better inform internal and external stakeholders of its tax policy and activities
- provide comparable information to stakeholders to better assess the impact of governments' tax policies on both corporate and tax administration behaviour and performance
- increase the accountability of governments by:
  - giving citizens another source of information about the tax that should go into national budget
  - highlighting subsidies given to transnational businesses
- create a level playing field and enable benchmarking by industry sector
- assist national tax authorities, particularly when these are under-resourced

To fulfil these objectives, a country-by-country tax report must be:

- fit-for-purpose – providing the key information necessary to make an informed judgement
- simple and understandable for both internal and external stakeholders
- capable of being audited
- integrated in the existing international country-by-country reporting frameworks – Extractive Industries Transparency Initiative (EITI), the US Dodd-Frank Act Section 1504, the EU Directives on Accounting and Transparency, EU Capital Requirements Directive IV (CRD IV)
- capable of being implemented with no or low additional costs of compliance and administrative burdens for both businesses and tax administrations

Ideally, a country-by-country reporting report should also be comparable by industry or sector. Without comparable data, the benefits of country-by-country reporting diminish considerably. This is because it becomes more difficult to differentiate between variances arising from the policies of an individual company and those arising from systematic factors, such as the availability of tax incentives.

Companies, and even sectors, may consider that the common template presented below provides insufficient information to allow an accurate assessment of their tax affairs. In these circumstances, it is encouraged that the companies take a principles-based approach – providing details of their tax policies and such additional information that assists stakeholders in drawing an accurate picture of the company's tax affairs.

3. A model template for disclosing corporate tax information

The template outlines the basic information. Sector specific information can be added in the additional rows. In order to reduce administrative costs, the information used for the country-by-country reports should be based on readily available information. Businesses should be permitted to use the reporting framework most

[3] Australia, Denmark, France, Ireland, Italy, Japan, Mexico, the Netherlands, Poland, Portugal, Spain and United Kingdom

appropriate for the entity in question, such as the International Financial Reporting Standards (IFRS), US Generally Accepted Accounting Principles (GAAP) or a local GAAP.

Normally, the country-by-country report would utilise information directly from the statutory accounts and corporate tax returns filed with local authorities or in preparation. There are some circumstances where such statutory accounts are not produced at a local level but are part of the financial reporting of an entity in another jurisdiction and no local statutory accounts filing is required. In such cases, it would be necessary to use internal management reporting information in conjunction with tax return information.

The information in the template below provides a basic understanding of the company's tax compliance in the countries in which it operates. However, to provide a complete picture, we advise the company to provide additional textual information, thus giving context to properly interpret bare numbers. For example, in the non-deductible expenses/incentives box, companies may feel it necessary to highlight the fact that they are taking advantage of government tax incentives specifically offered for that purpose.

	Tax jurisdiction A	**Tax jurisdiction B (etc.)**
Total revenue		
Expenses		
Profit before tax		
Corporate tax at a nominal rate of X%		
Corporate tax paid		
Corporate tax accrued		
Effective tax rate (see note)		
Non-deductible expenses/incentives		
Non-taxation based fees and levies or investments to the public finances		
Number of legal entities, business activities		

Optional additional disclosure where useful for specific industry sectors:

Sector specific explanations (free text)		
Taxes paid other than corporation tax		

3.1 Notes to the template

- "effective tax rate" represents the corporate tax accrued for the year divided by profit before tax
- in order to allow the reconciliation of the nominal tax rate to the effective tax rate, a short explanation should be given of:
  - expenses non-deductible for tax purposes
  - local tax incentives reducing or exempting income
  - local tax incentives increasing the tax deduction for certain expenses
  - other reconciling items

The above template may produce significant divergences between the nominal corporate tax rate and the effective tax rate. In order to avoid misinterpretation of these variances, we recommend that businesses publish additional narrative information to provide a factual explanation of the divergences.

Certain business sectors have specific rules governing their tax affairs not covered by the above template. In these situations, for example with some extractive industries, additional lines should be added to the template to disclose important facts relating to their tax obligations – for example, amounts paid in extractive taxes.

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Federation of European Accountants

WHO WE ARE

The Federation of European Accountants represents 50 professional institutes of accountants and auditors from 37 European countries, with a combined membership of almost one million professional accountants working in different capacities. As the voice of the European profession, the Federation recognises the public interest.

The Federation is in the EU Transparency Register (No 4713568401-18).