KPMG

Country-by-Country reporting

A regional perspective from KPMG in Bahrain

August 2018

kpmg.com/bh

Country-by-Country reporting: a regional perspective

As businesses in the Gulf Cooperation Council (GCC) reach out across the globe seeking new markets and expansion opportunities, their tax policies as well as the amount of tax they pay on a global scale are increasingly coming under close governmental and public scrutiny.

The Organisation for Economic Co-operation and Development (OECD) coordinated an action plan for the Base Erosion and Profit Shifting (BEPS) project, which was finalized in October 2015. The action plan lists down the measures to be taken in order to handle the growing concern among OECD and non-OECD countries alike on the risks related to tax revenues, tax sovereignty and tax fairness posed by BEPS behaviors, in particular, when these results lead to unanticipated double non-taxation.

The call for tax transparency is being echoed by stakeholders involved in tax transparency discussions around the world, including taxpayers, tax authorities, the European Commission, *G8 and *G20 countries, and the OECD. In addition, traditional tax havens that are keen to protect their commercial benefits and attract international commerce are also in favor of this. Therefore, one of the most important actions of the OECD's BEPS project is the *Guidance on Transfer Pricing Documentation and Country-by-Country Reporting*.

This action obligates multinational enterprises (MNEs) to report information annually regarding their substance, activities and financials in each of their tax jurisdictions (Country-by-Country reporting). The new Country-by-Country reporting rules not only impact companies with headquarters in OECD member countries, but also affect any group that has an operational presence in any major economy or OECD member country.

GCC headquartered companies with global operations, or MNEs with operations in the region, will therefore face unprecedented scrutiny on their functional substance under the BEPS.

Country-by-Country reporting will provide tax authorities with information to perform a high-level global risk assessment and to determine whether they should conduct a tax audit. Since the report is automatically shared among tax authorities, any lack of (economic) substance or the slightest impression of potential mismatches or non-compliance with arm's length principle could be enough to trigger a tax audit by tax authorities. These tax audits can be time consuming and costly, and may lead to the transfer of income and profits away from international hubs such as the GCC.

Country-by-Country reporting requirements have already been implemented in large number of countries around the world and will affect all groups with operations in countries that adopt the new rules. As of June 2018, 70 countries had signed the Multilateral Competent Authority Agreement (MCAA) for the automatic exchange of Country-by-Country reports, and more countries are poised to follow suit over 2018 and beyond.

Consequently, even MNEs that are headquartered in the GCC will still be required to file the Global Country-by-Country report for accounting periods beginning on or after 1 January 2016. Therefore, it is important for MNEs to consider how they are going to comply with these new requirements, and even more importantly, what will be the impact of the report on stakeholders and shareholder returns.

*G8: international forum for the governments and central bank governors from Canada, France, Germany, Italy, Japan, the United Kingdom, the United States and the European Union.
*G20: international forum for the governments and central bank governors from Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the United States and the European Union.

Country-by-Country reporting is relevant to you, if:

— You are headquartered in or have a presence in a G20 member country, an OECD member state or a member of the Inclusive Framework for BEPS (IF).

— Your group's consolidated annual revenue exceeds EUR750 million (some countries are lowering the revenue threshold).

It is crucial to act now, because:

— The first filing of the Country-by-Country reporting in some countries began as early as 2017 for FY16. These countries may be the ones in which you have headquarters, subsidiaries, operations or presence, requiring you to provide information of your business for the purposes of the Country-by-Country reporting in those jurisdictions.

— On 11 May 2018, Bahrain became a member of the IF. Although no legislation is in place as to date to legally impose and enforce the Country-by-Country reporting requirements onto MNE groups having tax residency in Bahrain, it will only be a matter of time before the authorities begin to roll out the implementation in Bahrain.

— Since the Country-by-Country reporting aims at assessing BEPS tax risks on a global scale concerning MNEs, and as this is a new type of tax reporting regime for the world, there has not been a better time than now to be prepared for the implementation of the Country-by-Country reporting and its associated challenges.

How KPMG can help

1. Intelligence gathering: In the first stage of this analysis, we present MNEs with a blank data sheet. In this sheet you can include similar data as is required by Country-by-Country reporting or even more detailed information to improve the analysis.

Sample of information captured in Country-by-Country report

Group name: Company Y

Transfer Pricing Quick Scan

Phase 5: Please identify the profits made by the group in each country.

Profits

	R&D	IP Management / Holding	Procurement	Manufacturing	Marketing & Sales	Management & Support Services	Services to unrelated parties	Group Finance	Regulated Financial Services	Insurance	Holding shares or other equity instruments	Dormant	Other	Total
Japan	2.000.000			10.000.000	4.500.000						4.000.000			20.500.000
United States				7.000.000	8.000.000									15.000.000
The Netherlands					3.800.000									3.800.000
Thailand				50.000.000										50.000.000
China					5.500.000									5.500.000
Italy					-300.000									-300.000
Spain					450.000									450.000
United Kingdom					900.000									900.000
France					300.000									300.000
Belgium					1.800.000									1.800.000
Singapore					3.000.000									3.000.000

2. Data analysis: In the second stage, we analyse the provided information. By assimilating the data on financials, people, functions, assets and capital, we can provide MNEs with a clear overview of the output of Country-by-Country reporting and determine whether the output results in possible risks or opportunities.

We provide MNEs with a detailed report, with a global overview of the analysis results.

3. Impact analysis: In the third stage, by identifying the risks and opportunities, we can, advise MNEs on how best to deal with these risks or opportunities using various approaches while ensuring consistency of the Country-by-Country report with the Master and Local File(s). By determining an (offensive or defensive) approach, the risk of (multiple) tax audits or even reputational damage can be avoided and effective tax rates can be managed.

The Country-by-Country analysis will help MNEs in the GCC to prepare themselves for future requirements imposed by the new call for global tax transparency. Knowing the impact of being transparent, MNEs can avoid potential future tax audits and transfer pricing challenges.

Our people and experience

KPMG's International Tax Group comprises experienced, **international, Middle Eastern and local tax experts** with legal, fiscal and economic backgrounds, as well as with experience working in various industries and with tax authorities. By using our KPMG global network, we can provide MNEs in the GCC with a global team of tax professionals experienced with global and local Country-by-Country reporting. Our network of professionals enables us to apply an integrated approach to your business.

Contacts

Philippe Norre
Head of Tax
Tax and Corporate Services
T: +973 1720 1400
E: pnorre@kpmg.com

Ali Al Mahroos
Senior Manager
Tax and Corporate Services
T: +973 1720 1459
E: aalmahroos@kpmg.com

Nik Faiziman Affandi
Manager
Tax and Corporate Services
T: +973 1720 1457
E: naffandi@kpmg.com