KPMG

TaxNewsFlash Canada

Canada's Country-by-Country Reporting Form Now Out

February 17, 2017
No. 2017-06

Canadian companie2017s of qualifying multinational corporate groups now have definitive guidance for preparing country-by-country reports for filing in Canada. Specifically, the CRA's release of Form RC4649, "Country-by-Country Report" now confirms the information that these entities need to report to comply with Canada's new country-by-country reporting requirements. This new prescribed form is consistent with the Organisation for Economic Co-operation and Development's (OECD) recommendations. The form clarifies what information companies must report to the CRA (including revenues, income taxes paid and the main activities of related entities) and how that information should be reported. The form is accompanied by five pages of instructions.

Canada's country-by-country reporting rules, which were enacted in 2017, are intended to enhance tax transparency and to provide adequate information to conduct transfer pricing risk assessments. Country-by-country reporting is required for taxation years beginning after 2015, with the first automatic exchanges of information between governments slated to begin by June 2018.

Background

Country-by-country reporting of operational and financial information is part of transfer pricing reporting standards developed by the OECD to reduce base erosion and profit shifting (BEPS) by multinational enterprises. The OECD released the final details for implementing a new country-by-country reporting plan in October 2015 under Action 13 of its BEPS project. This implementation package features model legislation and recommends a three-tiered approach that includes a country-by-country report (along with requirements for a master file and local files).

Canada enacted new rules for country-by-country reporting in 2016 in new section 233.8 of the Act (see *TaxNewsFlash-Canada* 2016-39, "Canada Moves Forward with Country-by-Country Reporting"). Canada has not yet indicated whether it will release legislation requiring master file and local file documentation.

Generally, Canada's country-by-country reporting rules require Canadian-resident ultimate parent entities of multinationals with consolidated revenues of €750 million or more during the preceding fiscal year to file a country-by-country report with the CRA. A Canadian-resident "constituent entity" of a multinational enterprise group must also file the report in certain circumstances, including where:

- The ultimate parent entity is not obligated to file a country-by-country report in its jurisdiction of tax residence
- The ultimate parent entity's jurisdiction of tax residence does not have an agreement for the automatic exchange of country-by-country reports with Canada as of the required filing date (a "qualifying competent authority agreement"); or
- The CRA has notified the constituent entity of a systemic failure, which can arise if there has been a suspension of automatic exchange for a qualifying competent authority agreement with the jurisdiction of the ultimate parent entity or the jurisdiction of the ultimate parent entity has persistently failed to automatically provide country-by-country reports in its possession to Canada).

However, a Canadian-resident constituent entity will not be required to file a country-by-country report if a surrogate parent entity files the country-by-country report for the multinational enterprise group on behalf of the ultimate parent entity.

Country-by-country reports must be filed within 12 months after the last day of the multinational enterprise group's reporting fiscal year that begin on or after January 1, 2016.

Required information

As expected, the content of the Canadian country-by-country report follows the OECD's recommendations. The CRA's new prescribed form confirms that affected companies must include in their report:

- The type of reporting entity (i.e., corporation, trust, or partnership) and the name of the multinational enterprise group

- The reporting role of the reporting entity (i.e., Ultimate Parent Entity, Surrogate Parent Entity, or Constituent Entity) and the residence and name of the Ultimate Parent Entity
- An overview, in table format, of the allocation of income, taxes and business activities by tax jurisdictions (Table I), including:
    - Related party revenues
    - Unrelated party revenues
    - Total revenues
    - Profit or loss before income tax
    - Income tax paid (on a cash basis)
    - Income tax accrued in the current year
    - Stated capital
    - Accumulated earnings
    - Number of employees on a full-time equivalent basis (including independent contractors)
    - Tangible assets other than cash and cash equivalents
- A list of all the constituent entities of the group on a jurisdiction-by-jurisdiction basis (Table 2), including:
    - Name, city and country of the constituent entities resident in the tax jurisdiction
    - Tax identification number of constituent entities and related country code of tax jurisdiction that issued the number
    - Main business activities of the constituent entities.
- Any further explanation needed to clarify the required information (Table 3).

The instructions also clarify that corporations should file using a functional currency where a functional currency election has been made. Otherwise all monetary amounts must be reported in Canadian dollars.

KPMG observations
In its guidance, the OECD previously indicated that countries could choose whether to report independent contractors as employees. The CRA's new reporting form confirms that Canada will require reporting companies to include independent contractors participating in the constituent entity's ordinary operating activities as employees. To prepare for this reporting requirement, affected companies should consider developing a process to readily capture independent contractor information, as this may be difficult to obtain. Consistent with the OECD guidance, the CRA will allow a reasonable rounding or approximation of the number of employees, as long as this does not materially distort the relative distribution of employees across the various tax jurisdictions. As well, the CRA requires that the approach used be consistent each year and across entities, in line with the OECD's guidance.

The form instructions note that, for all of the constituent entities resident in a particular tax jurisdiction, reporting entities must sum the reported amounts for revenue, profit (loss), income tax and stated capital (i.e., the information reported in Table I). However, the instructions do not appear to allow rounding of amounts, which must be expressed in full.

Filing instructions

According to the CRA's instructions, the reporting form may be e-filed or filed in paper format. Where the report is paper-filed, it must be filed separately from other CRA filings.

KPMG observations
Where the country-by-country report is paper filed, it's not clear how the CRA will share reported information with other tax jurisdictions. Presumably, this data will have to be converted into XML, as required by the OECD.

We can help

KPMG can assist you at every phase of your country-by-country reporting strategy. Whether you are looking at performing a preliminary readiness assessment, a blueprinting exercise to assist in defining the scope and country-by-country factors, a strategic risk assessment relying on analytics, or an end-to-end country-by-country reporting project, we can bring experience and leading practices from our national and global network. We can also assist clients on projects through the use of our proprietary technology tool KPMG LINK Country-by-Country Reporting, a web-based application to capture, analyze and report data.

For more details on these developments and their potential impact, contact your KPMG adviser or one of the following members of our transfer pricing team:

David Francescucci
National Leader, Transfer Pricing and Value Chain Management
dfrancescucci@kpmg.ca
514-840-2395

Michael Glaser
Vancouver, Transfer Pricing
mglaser@kpmg.ca
604-691-3165

Michelle Sledz
Calgary, Transfer Pricing
msledz@kpmg.ca
403-691-7952

Rob Davis
Toronto, Transfer Pricing
robertdavis@kpmg.ca
416-777-3496

Demet Tepe
Montreal, Transfer Pricing
dtepe@kpmg.ca
514 840-5767

kpmg.ca

Contact Us | KPMG in Canada Privacy Policy | KPMG On-Line Privacy Policy | Legal