



China Tax Alert

Issue 23, November 2018

China Activates More Country-by-Country Report Exchange Relationships, Outbound MNE's Compliance Burden Will Be Alleviated

Regulations discussed in this issue:

OECD BEPS Action 13 finalized
in October 2015

Announcement on Matters
Regarding Refining the Filing of
Related Party Transactions and
Administration of
Contemporaneous Transfer
Pricing Documentation
("Announcement 42")

Announcement on
Administrative Measures of
Special Tax Investigation and
Adjustment and Mutual
Agreement Procedures
("Announcement 6")

On November 9, 2018, OECD published the latest country-by-country (CBC) reporting implementation and activated exchange relationships. China has activated CbC report exchange relationships with 44 countries. The action is an expansion of China's current exchange relationship with the U.K., France, and Germany, and indicates China's commitment to fully participate in the OECD Base Erosion and Profit Shifting (BEPS) Action Plan, and to fulfil the minimum standards of the BEPS Action Plan. For Chinese outbound multinational enterprises (MNEs), the expanded CBC report exchange network means that more companies will not need to perform CBC report local filings. This will alleviate MNEs' burden for their global tax compliance management.

Background

The BEPS Action Plan initiated by the OECD and G20 countries in 2013 recognized that enhancing transparency for tax administrations and providing them with adequate information to assess high-level transfer pricing and tax risks is a crucial aspect of tackling BEPS issues.

The BEPS Action 13 provides a CBC report template for MNEs to report their annual business operating information by each tax jurisdiction in which they do business. The information includes revenue, profit, taxation, personnel, assets, etc. 47 jurisdictions that are members of the Inclusive Framework have introduced the CbC reporting obligation for fiscal years commencing in 2016. Currently, around 70 Inclusive Framework jurisdictions have introduced or taken actions to introduce the CbC reporting obligation.

The obligation to exchange CBC reports is one of the four BEPS minimum standards, which all members of the Inclusive Framework are required to fulfil. The implementation of CBC report exchanges between tax jurisdictions may be made based on the following three models:

- 1 Multilateral Convention on Administrative Assistance in Tax Matters (MCAA), including the Multilateral Competent Authority Agreement for Country by Country Reporting (CBC MCAA);
- 2 Bilateral tax conventions to prevent double taxation; and
- 3 Tax Information Exchange Agreements (TIEAs).

As of November 2018, there are over 1,900 bilateral exchange relationships activated with respect to jurisdictions committed to exchanging CbC reports, and the first automatic exchanges of CbC reports took place in June 2018. These include exchanges between the 74 signatories to the CbC MCAA, 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 TIEAs, including 40 bilateral agreements with the United States.

Since the Action 13 Report was released, jurisdictions have made great efforts to introduce the necessary domestic legislation, establish information exchange platforms and other administrative frameworks for the filing and exchange of CbC reports in accordance with the Action 13 minimum standards. Jurisdictions continue to negotiate arrangements for the exchange of CbC reports. The OECD publish regular updates to provide clarity for MNE Groups and tax administrations.

Currently China has activated CbC report exchange relationships with 44 countries, including Argentina, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, India, Indonesia, Ireland, Italy, Japan, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Russia, Singapore, Slovak Republic, Slovenia, South Africa, South Korea, Spain, Sweden, Switzerland, and United Kingdom. Among the above countries, Cyprus and Romania are non-reciprocal jurisdictions, i.e. they have committed to send the CBC reports to China but will not receive CBC reports from China. China is expected to exchange CbC reports in 2019 for taxable years beginning on or after 1 January 2017.

KPMG Observations:

Currently, there are 53 countries that require the submission of CBC reports locally. The expanded CBC report exchange network between China and other tax jurisdictions means that more companies will not need to submit the CBC reports locally. This will alleviate Chinese outbound MNEs' burden for their global tax compliance management. Enterprises should pay close attention to further updates on the CbC report exchange arrangements, and formulate effective CbC report filing strategies.

In the meantime, the more extensive CBC report exchange network means that more information will be exchanged with foreign tax jurisdictions. Many countries including China have integrated the CBC report information into the tax risk monitoring and management system, and we expect that this would lead to more risk assessments in the future. MNEs must treat their CbC reporting obligations with the utmost diligence and care, to ensure that the CbC reporting is a true and fair representation of the groups' financial positions and operations, and rigorously examine any potential risks that could be highlighted by their CbC data.

For existing risks, MNEs should take actions to mitigate such risks, including providing further support in transfer pricing documentation and/or considering refinement of the global operating structures and global transfer pricing policies, such as improving substance in weak spots, winding down non-compliant structures, restructuring certain transactions to bring them into compliance, etc. MNEs should regulate their corporate governance and manage their global transfer pricing risks by establishing arm's length transfer pricing policies. MNEs should also reasonably allocate the functions, risks, assets and personnel in each country, and align tax outcomes with value creation. In tax jurisdictions where high transfer pricing risks exist, MNEs may also consider advance pricing agreements (APA) and other bilateral/multilateral instruments to mitigate their transfer pricing risks.





创新赋能 税道渠成

Contact us

China



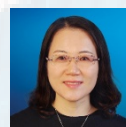
Lewis Lu

Head of Tax
KPMG China
T: +86 (21) 2212 3421
E: lewis.lu@kpmg.com



Cheng Chi

Head of Transfer Pricing
KPMG China
T: +86 (10) 8508 7608
E: cheng.chi@kpmg.com



Xiaoyue Wang

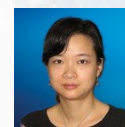
Tax Partner
KPMG China
T: +86 (10) 8508 7090
E: xiaoyue.wang@kpmg.com

Northern Region



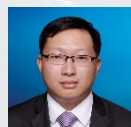
Cheng Chi

Head of Transfer Pricing
KPMG China
T: +86 (10) 8508 7608
E: cheng.chi@kpmg.com



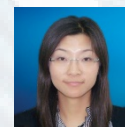
Lucia Liu

Tax Director
KPMG China
T: +86 (10) 8508 7570
E: lucia.jj.liu@kpmg.com



Kenny Wang

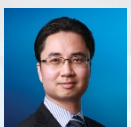
Tax Director
KPMG China
T: +86 (10) 8508 7655
E: kenny.wang@kpmg.com



Lisa Li

Tax Director
KPMG China
T: +86 (10) 8508 7638
E: lisa.h.li@kpmg.com

Eastern and Western Region



Robert Xu

Tax Partner
KPMG China
T: +86 (21) 2212 3124
E: robert.xu@kpmg.com



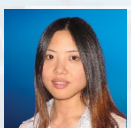
Mimi Wang

Tax Partner
KPMG China
T: +86 (21) 2212 3250
E: mimi.wang@kpmg.com



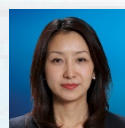
Kevin Zhu

Tax Partner
KPMG China
T: +86 (21) 2212 3346
E: kevin.x.zhu@kpmg.com



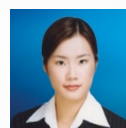
Tanya Tang

Tax Partner
KPMG China
T: +86 (25) 8691 2850
E: tanya.tang@kpmg.com



Naoko Hirasawa

Tax Partner
KPMG China
T: +86 (21) 2212 3098
E: naoko.hirasawa@kpmg.com



Ellen Yan

Tax Director
KPMG China
T: +86 (21) 2212 3484
E: ellen.yan@kpmg.com



Ruqiang Pan

Tax Director
KPMG China
T: +86 (21) 2212 3118
E: ruqiang.pan@kpmg.com



Leon Shao

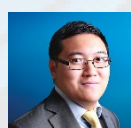
Tax Director
KPMG China
T: +86 (21) 2212 3622
E: leon.shao@kpmg.com



Amy Rao

Tax Director
KPMG China
T: +86 (21) 2212 3208
E: amy.rao@kpmg.com

Southern Region



Patrick Lu

Tax Partner
KPMG China
T: +86 (755) 2547 1187
E: patrick.c.lu@kpmg.com



Kelly Liao

Tax Partner
KPMG China
T: +86 (20) 3813 8668
E: kelly.liao@kpmg.com



Chris Xiao

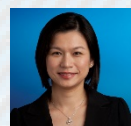
Tax Director
KPMG China
T: +86 (755) 3813 8630
E: chris.xiao@kpmg.com



Lixin Zeng

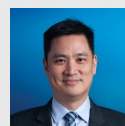
Tax Director
KPMG China
T: +86 (20) 3813 8812
E: lixin.zeng@kpmg.com

HK



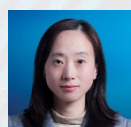
Karmen Yeung

Tax Partner
KPMG China
T: +852 2143 8753
E: karmen.yeung@kpmg.com



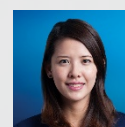
Patrick Cheung

Tax Partner
KPMG China
T: +852 3927 4602
E: patrick.p.cheung@kpmg.com



Lu Chen

Tax Partner
KPMG China
T: +852 2143 8777
E: lu.l.chen@kpmg.com



Irene Lee

Tax Director
KPMG China
T: +852 2685 7372
E: irene.lee@kpmg.com

For any enquiries, please send to our public mailbox: taxenquiry@kpmg.com or contact our partners/directors in each China/HK offices.

Khoonming Ho
Head of Tax,
KPMG Asia Pacific
Tel. +86 (10) 8508 7082
khoonming.ho@kpmg.com

Lewis Lu
Head of Tax,
KPMG China
Tel. +86 (21) 2212 3421
lewis.lu@kpmg.com

Beijing/Shenyang/Qingdao
Vincent Pang
Tel. +86 (532) 8907 1728
vincent.pang@kpmg.com

Tianjin
Eric Zhou
Tel. +86 (10) 8508 7610
ec.zhou@kpmg.com

Shanghai/Nanjing/Chengdu
Anthony Chau
Tel. +86 (21) 2212 3206
anthony.chau@kpmg.com

Hangzhou
John Wang
Tel. +86 (571) 2803 8088
john.wang@kpmg.com

Guangzhou
Lilly Li
Tel. +86 (20) 3813 8999
lilly.li@kpmg.com

Fuzhou/Xiamen
Maria Mei
Tel. +86 (592) 2150 807
maria.mei@kpmg.com

Shenzhen
Eileen Sun
Tel. +86 (755) 2547 1188
eileen.gh.sun@kpmg.com

Hong Kong
Karmen Yeung
Tel. +852 2143 8753
karmen.yeung@kpmg.com

Northern China

Vincent Pang
Head of Tax,
Northern Region
Tel. +86 (10) 8508 7516
+86 (532) 8907 1728
vincent.pang@kpmg.com

Cheng Chi
Tel. +86 (10) 8508 7606
cheng.chi@kpmg.com

Conrad TURLEY
Tel. +86 (10) 8508 7513
conrad.turley@kpmg.com

Milano Fang
Tel. +86 (532) 8907 1724
milano.fang@kpmg.com

Tony Feng
Tel. +86 (10) 8508 7531
tony.feng@kpmg.com

Flora Fan
Tel. +86 (10) 8508 7611
flora.fan@kpmg.com

John Gu
Tel. +86 (10) 8508 7095
john.gu@kpmg.com

Rachel Guan
Tel. +86 (10) 8508 7613
rachel.guan@kpmg.com

Helen Han
Tel. +86 (10) 8508 7627
h.han@kpmg.com

Michael Wong
Tel. +86 (10) 8508 7085
michael.wong@kpmg.com

Henry Kim
Tel. +86 (10) 8508 5000
henry.kim@kpmg.com

David Ling
Tel. +86 (10) 8508 7083
david.ling@kpmg.com

Lisa Li
Tel. +86 (10) 8508 7638
lisa.h.li@kpmg.com

Lucia Liu
Tel. +86 (10) 8508 7570
lucia.jj.liu@kpmg.com

Alan O'Connor
Tel. +86 (10) 8508 7521
alan.oconnor@kpmg.com

Shirley Shen
Tel. +86 (10) 8508 7586
yinghua.shen@kpmg.com

Joseph Tam
Tel. +86 (10) 8508 7605
laiyiui.tam@kpmg.com

Joyce Tan
Tel. +86 (10) 8508 7666
joyce.tan@kpmg.com

Christopher Xing
Tel. +86 (10) 8508 7072
christopher.xing@kpmg.com

Kensuke MATSUDA
Tel. +86 (10) 8508 7034
kensuke.matsuda@kpmg.com

Irene Yan
Tel. +86 (10) 8508 7508
irene.yan@kpmg.com

Adams Yuan
Tel. +86 (10) 8508 7596
adams.yuan@kpmg.com

Jessie Zhang
Tel. +86 (10) 8508 7625
jessie.j.zhang@kpmg.com

Sheila Zhang
Tel. +86 (10) 8508 7507
sheila.zhang@kpmg.com

Tracey Zhang
Tel. +86 (10) 8508 7509
tracy.h.zhang@kpmg.com

Eric Zhou
Tel. +86 (10) 8508 7610
ec.zhou@kpmg.com

Vivian Zhou
Tel. +86 (10) 8508 3360
v.zhou@kpmg.com

Carol Cheng
Tel. +86 (10) 8508 7644
carol.y.cheng@kpmg.com

Ally Mi
Tel. +86 (10) 8508 7583
ally.mi@kpmg.com

Kenny Wang
Tel. +86 (10) 8508 7655
kenny.wang@kpmg.com

Fiona Yu
Tel. +86 (10) 8508 7663
fiona.yu@kpmg.com

Lily Zhang
Tel. +86 (10) 8508 7545
lily.l.zhang@kpmg.com

Eric Zhao
Tel. +86 (10) 8508 7493
eric.zhao@kpmg.com

Laura Xu
Tel. +86 (532) 8907 1731
laura.xu@kpmg.com

Central China

Anthony Chau
Head of Tax,
Eastern & Western Region
Tel. +86 (21) 2212 3206
anthony.chau@kpmg.com

Yasuhiko Otani
Tel. +86 (21) 2212 3360
yasuhiko.otani@kpmg.com

Johnny Deng
Tel. +86 (21) 2212 3457
johnny.deng@kpmg.com

Cheng Dong
Tel. +86 (21) 2212 3410
cheng.dong@kpmg.com

Chris Ge
Tel. +86 (21) 2212 3083
chris.ge@kpmg.com

Chris Ho
Tel. +86 (21) 2212 3406
chris.ho@kpmg.com

Henry Wong
Tel. +86 (21) 2212 3380
henry.wong@kpmg.com

Jason Jiang
Tel. +86 (21) 2212 3527
jason.jt.jiang@kpmg.com

Sunny Leung
Tel. +86 (21) 2212 3488
sunny.leung@kpmg.com

Michael Li
Tel. +86 (21) 2212 3463
michael.y.li@kpmg.com

Karen Lin
Tel. +86 (21) 2212 4169
karen.w.lin@kpmg.com

Benjamin Lu
Tel. +86 (21) 2212 3462
benjamin.lu@kpmg.com

Christopher Mak
Tel. +86 (21) 2212 3409
christopher.mak@kpmg.com

Naoko Hirasawa
Tel. +86 (21) 2212 3098
naoko.hirasawa@kpmg.com

Ruqiang Pan
Tel. +86 (21) 2212 3118
ruqiang.pan@kpmg.com

Amy Rao
Tel. +86 (21) 2212 3208
amy.rao@kpmg.com

Wayne Tan
Tel. +86 (28) 8673 3915
wayne.tan@kpmg.com

Tanya Tang
Tel. +86 (25) 8691 2850
tanya.tang@kpmg.com

Rachel Tao
Tel. +86 (21) 2212 3473
rachel.tao@kpmg.com

Janet Wang
Tel. +86 (21) 2212 3302
janet.z.wang@kpmg.com

John Wang
Tel. +86 (571) 2803 8088
john.wang@kpmg.com

Mimi Wang
Tel. +86 (21) 2212 3250
mimi.wang@kpmg.com

Jennifer Weng
Tel. +86 (21) 2212 3431
jennifer.weng@kpmg.com

Grace Xie
Tel. +86 (21) 2212 3422
grace.xie@kpmg.com

Bruce Xu
Tel. +86 (21) 2212 3396
bruce.xu@kpmg.com

Jie Xu
Tel. +86 (21) 2212 3678
jie.xu@kpmg.com

Robert Xu
Tel. +86 (21) 2212 3124
robert.xu@kpmg.com

Jason Yu
Tel. +86 (21) 2212 3316
jim.yu@kpmg.com

William Zhang
Tel. +86 (21) 2212 3415
william.zhang@kpmg.com

Hanson Zhou
Tel. +86 (21) 2212 3318
hanson.zhou@kpmg.com

Michelle Zhou
Tel. +86 (21) 2212 3458
michelle.b.zhou@kpmg.com

Eric Zhang
Tel. +86 (21) 2212 3398
eric.zhang@kpmg.com

Kevin Zhu
Tel. +86 (21) 2212 3346
kevin.x.zhu@kpmg.com

Leon Shao
Tel. +86 (21) 2212 3622
leon.shao@kpmg.com

Joyce Wang
Tel. +86 (21) 2212 3387
joyce.t.wang@kpmg.com

Robin Xiao
Tel. +86 (21) 2212 3273
robin.xiao@kpmg.com

Ellen Yan
Tel. +86 (21) 2212 3484
ellen.yan@kpmg.com

Tim Zeng
Tel. +86 (21) 2212 3759
tim.zeng@kpmg.com

Southern China

Lilly Li
Head of Tax,
Southern Region
Tel. +86 (20) 3813 8999
lilly.li@kpmg.com

Vivian Chen
Tel. +86 (755) 2547 1198
vivian.w.chen@kpmg.com

Nicole Cao
Tel. +86 (20) 3813 8619
nicole.cao@kpmg.com

Felix Feng
Tel. +86 (20) 3813 7060
Felix.feng@kpmg.com

Ricky Gu
Tel. +86 (20) 3813 8620
ricky.gu@kpmg.com

Fiona He
Tel. +86 (20) 3813 8623
fiona.he@kpmg.com

Aileen Jiang
Tel. +86 (755) 2547 1163
aileen.jiang@kpmg.com

Cloris Li
Tel. +86 (20) 3813 8829
cloris.li@kpmg.com

Jean Li
Tel. +86 (755) 2547 1128
jean.j.li@kpmg.com

Sisi Li
Tel. +86 (20) 3813 8887
sisi.li@kpmg.com

Mabel Li
Tel. +86 (755) 2547 1164
mabel.li@kpmg.com

Kelly Liao
Tel. +86 (20) 3813 8668
kelly.liao@kpmg.com

Patrick Lu
Tel. +86 (755) 2547 1187
patrick.c.lu@kpmg.com

Grace Luo
Tel. +86 (20) 3813 8609
grace.luo@kpmg.com

Ling Lin
Tel. +86 (755) 2547 1170
ling.lin@kpmg.com

Maria Mei
Tel. +86 (592) 2150 807
maria.mei@kpmg.com

Chris Xiao
Tel. +86 (755) 3813 8630
chris.xiao@kpmg.com

Eileen Sun
Tel. +86 (755) 2547 1188
eileen.gh.sun@kpmg.com

Koko Tang
Tel. +86 (755) 2547 4180
koko.tang@kpmg.com

Bin Yang
Tel. +86 (20) 3813 8605
bin.yang@kpmg.com

Lixin Zeng
Tel. +86 (20) 3813 8812
lixin.zeng@kpmg.com

Nicole Zhang
Tel. +86 (20) 3813 8644
nicole.ll.zhang@kpmg.com

Bruce Liu
Tel. +86 (20) 3813 8636
bruce.liu@kpmg.com

Sophie Lu
Tel. +86 (20) 2547 1141
ss.lu@kpmg.com

Fiona Wu
Tel. +86 (20) 3813 8606
fiona.wu@kpmg.com

Philip Xia
Tel. +86 (20) 3813 8674
philip.xia@kpmg.com

Hong Kong

Curtis Ng
Head of Tax, Hong Kong
Tel. +852 2143 8709
curtis.ng@kpmg.com

Ayesha M. Lau
Tel. +852 2826 7165
ayasha.lau@kpmg.com

Darren Bowdern
Tel. +852 2826 7166
darren.bowdern@kpmg.com

Yvette Chan
Tel. +852 2847 5108
yvette.chan@kpmg.com

Lu Chen
Tel. +852 2143 8777
lu.l.chen@kpmg.com

Patrick Cheung
Tel. +852 3927 4602
patrick.p.cheung@kpmg.com

Wade Wagatsuma
Tel. +852 2685 7806
wade.wagatsuma@kpmg.com

Natalie To
Tel. +852 2143 8509
natalie.to@kpmg.com

Elizabeth DE LA CRUZ
Tel. +852 2826 8071
elizabeth.delacruz@kpmg.com

Matthew Fenwick
Tel. +852 2143 8761
matthew.fenwick@kpmg.com

Sandy Fung
Tel. +852 2143 8821
sandy.fung@kpmg.com

Charles Kinsley
Tel. +852 2826 8070
charles.kinsley@kpmg.com

Stanley Ho
Tel. +852 2826 7296
stanley.ho@kpmg.com

Becky Wong
Tel. +852 2978 8271
becky.wong@kpmg.com

Barbara Forrest
Tel. +852 2978 8941
barbara.forrest@kpmg.com

Kate Lai
Tel. +852 2978 8942
kate.lai@kpmg.com

Travis Lee
Tel. +852 2143 8524
travis.lee@kpmg.com

Irene Lee
Tel. +852 2685 7372
irene.lee@kpmg.com

Alice Leung
Tel. +852 2143 8711
alice.leung@kpmg.com

Ivor Morris
Tel. +852 2847 5092
[ivor.morris@k](mailto:ivor.morris@kpmg.com)