Recharging CSRD reporting costs

Transferring costs to subsidiaries

The CSRD (Corporate Sustainability Reporting Directive) requires companies to report on their sustainability activities in a structured manner. Companies must check to what extent the parent company's costs for CSRD reporting can be passed on to subsidiaries. The KPMG Country Matrix uses a traffic light system to provide an initial assessment of which countries allow costs to be successfully recharged.

Cost relief for parent company

Implementing CSRD reporting is challenging. In addition to preparing the reports, companies must check to what extent they can pass on the related costs to their subsidiaries. This concerns subsidiaries that benefit from CSRD reporting being prepared because the group reporting relieves them from this task. The subsidiary can gain an advantage from an image associated with sustainability. And customers and suppliers are increasingly demanding sustainability reporting in the context of a business relationship. Only in individual cases do national regulations impose on the subsidiary its own CSRD reporting or sustainability reporting obligation, which the group reporting then relieves it from.

KPMG Country Matrix offers efficient starting point

KPMG has created a Country Matrix for the charging of CSRD costs: a clear traffic light system assesses the legal framework based on OECD membership and double taxation agreements (arbitration clause) to provide an indication for recharging costs to subsidiaries in the different countries.

Background

- **Arm's length principle:** The compensation for transactions within a group must conform to the arm's length principle. The basis for determining arm's length compensation is a function and risk analysis.
- **Advantage for the subsidiary:** CSRD reporting is usually started as a project of the parent company for the group. However, subsidiaries can also benefit from CSRD reporting or similar sustainability reporting.
- **Costs:** The CSRD project incurs costs for the parent company which can be estimated as part of the transformation in determining the required resources. In most cases the parent company also bears the administrative costs for the project.
- **Recharging:** A benefit test analyses the CSRD costs (including administrative costs) by assessing the extent to which they are chargeable. Chargeable costs are to be passed to the subsidiaries that themselves benefit from CSRD reporting – due to a more sustainable image, requirements in business relationships or due to their own obligation.

Country Matrix[1]

Country	OECD country (yes/no)	Compliance with OECD Transfer Pricing Guidelines (yes/(yes)/no)	Double taxation agreement – arbitration clause (yes/no)	Country category based on risk assessment
Australien	yes	yes	yes	A
Brazil	no	yes	no	B
Canada	yes	yes	yes	A
China	no	(yes)	no	C
Finland	yes	yes	yes	A
France	yes	yes	yes	A
Denmark	yes	yes	yes	A

Source: KPMG in Germany, 2024

Our approach

1. Determine the costs incurred by the parent company as a result of CSRD reporting. Benefit testing: Divide the costs into chargeable/ non-chargeable costs.
2. Provide an efficient, risk-oriented initial assessment of potential recharging of the chargeable costs within the group using the KPMG Country Matrix. After all, recharging is not recognised in all countries.
3. Risk-based approach: country-specific tax regulations, transaction volumes, function and risk profile and profitability of the company may change the risk allocation of the respective country, meaning that the proposed category could deviate.
4. Define and calculate costs, initially in relation to implementation.
5. Assess the tax effects taking into account the calculated rechargeable costs for the CSRD reporting.
6. Implement recharging: prepare transfer pricing documentation, coordinate with the subsidiaries, issue invoices, issue reimbursements.

[1] note: simplified presentation

As an option, we can provide support with

- the charging of other costs caused by ESG. This includes, in particular, the costs of ESG strategy development by the parent company, which will generally lead to an advantage for the subsidiary,
- the transfer of the charging of CSRD costs or ESG costs into a process for subsequent years.

Well-equipped to meet your needs

We are experts in transfer pricing planning, implementation and documentation. ESG requirements affect transfer pricing – not just due to supply chain adjustments but also for CSRD reporting. We have already identified, defined and implemented CSRD cost recharging in many client projects and can draw on valuable experience.

Please do not hesitate to contact us if you have any questions or require further information.
Get in touch.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

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