



# **Guidance on the Implementation of Country-by-Country Reporting**

**BEPS ACTION 13**

**Updated July 2017**

# Guidance on the Implementation of Country-by-Country Reporting: BEPS Action 13

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## I. Introduction

All OECD and G20 countries have committed to implementing country by country (CbC) reporting, as set out in the Action 13 Report “Transfer Pricing Documentation and Country-by-Country Reporting”. Recognising the significant benefits that CbC reporting can offer a tax administration in undertaking high level risk assessment of transfer pricing and other BEPS related tax risks, a number of other jurisdictions have also committed to implementing CbC reporting (which with OECD members form the “Inclusive Framework”), including developing countries.

Jurisdictions have agreed that implementing CbC reporting is a key priority in addressing BEPS risks, and the Action 13 Report recommended that reporting take place with respect to fiscal periods commencing from 1 January 2016. Swift progress is being made in order to meet this timeline, including the introduction of domestic legal frameworks and the entry into competent authority agreements for the international exchange of CbC reports. MNE Groups are likewise making preparations for CbC reporting, and dialogue between governments and business is a critical aspect of ensuring that CbC reporting is implemented consistently across the globe. Consistent implementation will not only ensure a level playing field, but also provide certainty for taxpayers and improve the ability of tax administrations to use CbC reports in their risk assessment work.

The OECD will continue to support the consistent and swift implementation of CbC reporting. Where questions of interpretation have arisen and would be best addressed through common public guidance, the OECD will endeavour to make this available. The guidance in this document is intended to assist in this regard.

## **II. Issues relating to the definition of items reported in the template for the CbC report**

<b>1. Definition of revenues (April 2017)</b>
<p><i>Should extraordinary income and gain from investment activities be included in the column "Revenues" in the CbC report?</i></p> <p>Extraordinary income and gains from investment activities are to be included in "Revenues."</p>

## **2. Definition of related parties (April 2017)**

### ***Which entities are considered to be related parties for purposes of reporting related party revenues?***

For the third column of Table 1 of the CbC report, the related parties, which are defined as “associated enterprises” in the Action 13 report, should be interpreted as the Constituent Entities listed in Table 2 of the CbC report.

### 3. Aggregated data or consolidated data to be reported per jurisdiction (July 2017) (NEW)

*If there is more than one constituent entity in a jurisdiction, should the aggregated data be reported or should the data that is reported for the jurisdiction consist of consolidated data which eliminates intra-jurisdiction transactions between constituent entities in that jurisdiction?*

The Action 13 Report and the model legislation contemplate that reporting will occur on an aggregate basis at a jurisdictional level. Accordingly, data should be reported on an aggregated basis, regardless of whether the transactions occurred cross-border or within the jurisdiction, or between related parties or unrelated parties. This guidance will be particularly relevant for the columns on related party revenues and total revenues. An MNE Group may use the notes section in Table 3 to explain the data if it wishes to do so.

Where the jurisdiction of the Ultimate Parent Entity has a system of taxation for corporate groups which includes consolidated reporting for tax purposes, and the consolidation eliminates intra-group transactions at the level of individual line items, that jurisdiction may allow taxpayers an option to complete the CbC report using consolidated data at the jurisdictional level, as long as consolidated data are reported for each jurisdiction in Table 1 of the CbC report and consolidation is used consistently across the years. Taxpayers choosing this option should use the following wording in Table 3 that (or in local language): "This report uses consolidated data at the jurisdictional level for reporting the data in Table 1", and should specify the columns in Table 1 in which the consolidated data is different than if aggregated data were reported.

Inclusive Framework members are expected to implement the above guidance (reporting on an aggregated basis only, apart from the exception described above) as soon as possible, taking into account their specific domestic circumstances. It is recognised that time may be needed for MNE Groups to make the necessary adjustments, for example in situations where guidance permitting the reporting of consolidated data for intra-jurisdiction transactions has already been issued. Jurisdictions may thus allow some flexibility during a short transitional period (i.e. for fiscal years starting in 2016). Taxpayers reporting consolidated data under this transitional mechanism should provide the same information in Table 3 as described in the previous paragraph.



### III. Issues relating to the entities to be reported in the CbC report

#### 1. Application of CbC reporting to investment funds (June 2016)

##### *How should the CbC reporting rules be applied to investment funds?*

As stated in paragraph 55 of the Action 13 Report, there is no general exemption for investment funds. Therefore the governing principle to determine an MNE Group is to follow the accounting consolidation rules. For example, if the accounting rules instruct investment entities to not consolidate with investee companies (e.g. because the consolidated accounts for the investment entity should instead report fair value of the investment through profit and loss), then the investee companies should not form part of a Group or MNE Group (as defined in the model legislation) or be considered as Constituent Entities of an MNE Group. This principle applies even where the investment entity has a controlling interest in the investee company.

On the other hand, if the accounting rules require an investment entity to consolidate with a subsidiary, such as where that subsidiary provides services that relate to the investment entity's investment activities, then the subsidiary should be part of a Group and should be considered as a Constituent Entity of the MNE Group (if one exists).

It is still possible for a company, which is owned by an investment fund, to control other entities such that, in combination with these other entities, it forms an MNE Group. In this case, and if the MNE Group exceeds the revenue threshold, it would need to comply with the requirement to file a CbC report.

## 2. Application of CbC reporting to partnerships (June 2016)

***How should a partnership which is tax transparent and thus has no tax residency anywhere be included in the CbC report? How should a reverse hybrid partnership, which is tax transparent in its jurisdiction of organisation but considered by a partner's jurisdiction to be tax resident in its jurisdiction of organisation, be treated?***

The governing principle to determine an MNE Group is to follow the accounting consolidation rules. If the accounting consolidation rules apply to a partnership, then that partnership may be a Constituent Entity of an MNE group subject to CbC reporting.

For the purpose of completing the CbC report, if a partnership is not tax resident in any jurisdiction then the partnership's items, to the extent not attributable to a permanent establishment, should be included in the line in table 1 of the CbC report for stateless entities. Any partners that are also Constituent Entities within the MNE Group should include their share of the partnership's items in table 1 in their jurisdiction of tax residence.

Table 2 of the CbC report should include a row for stateless entities and a sub-row for each stateless entity including partnerships that do not have a tax residence - that is, the reporting for stateless entities should parallel the reporting for Constituent Entities that have a tax residence. For a partnership included in the stateless entity category, the field in table 2 for "tax jurisdiction of organisation or incorporation if different from tax jurisdiction of residence" should indicate the jurisdiction under whose laws the partnership is formed / organised.

It may be advisable for the MNE to provide an explanation in the notes section of the report on the partnership structure and on the stateless entities. For instance, a note in the Additional Information section may indicate that a partnership's "stateless income" is includable and taxable in the partner jurisdiction.

Where a partnership is the Ultimate Parent Entity, for the purpose of determining where it is required to file the CbC report in its capacity as the Ultimate Parent Entity, the jurisdiction under whose laws the partnership is formed / organised will govern if there is no jurisdiction of tax residence.

A permanent establishment of a partnership would be included in the CbC report in the same manner as any other permanent establishment.

### 3. Accounting principles/standards for determining the existence of and membership of a group (April 2017)

*To determine the existence of a “Group” and the membership of the Group under Article 1.1 of the model legislation in the Action 13 report:*

- a) If the equity interests of the relevant enterprise\* are traded on a public securities exchange, should the applicable accounting standards be the accounting standards that currently apply to that enterprise for consolidated financial statement purposes?*
- b) If the equity interests of the relevant enterprise\* are not traded on a public securities exchange, can the applicable accounting standards be chosen provided that the choice is either (i) local GAAP in the jurisdiction of the enterprise assumed to be listed or (ii) International Financial Reporting Standards (IFRS), and provided the method chosen is used consistently?*

*\*Relevant enterprise would be the Ultimate Parent Entity under Article 1.6 of the model legislation in the Action 13 report.*

The Action 13 report does not specify that any particular accounting standard's consolidation rules be used. It is expected that:

- a) If the equity interests of the relevant enterprise, which would be an Ultimate Parent Entity under Article 1.6 of the model legislation, are traded on a public securities exchange, jurisdictions will require the Group to use the consolidation rules in the accounting standards already used by the Group.
- b) If the equity interests of the relevant enterprise, which would be an Ultimate Parent Entity under Article 1.6 of the model legislation, are not traded on a public securities exchange, jurisdictions may allow the Group to choose to use either local GAAP of the jurisdiction of the Ultimate Parent Entity (which includes US GAAP if it is permitted under the local rules and regulations of the jurisdiction of the Ultimate Parent Entity) or IFRS as its governing accounting standard, as long as the Group applies this choice consistently across years and for other aspects of the CbC report requiring reference to an accounting standard. However, if the jurisdiction of residence of the enterprise that would be the Ultimate Parent Entity mandates the use of a particular accounting standard (or standards) for enterprises the equity of which is traded on a public securities exchange, this mandatory standard (or one of these mandatory standards) must be used. Exceptionally, if a jurisdiction's consolidation rules generally require investment entities to be consolidated with investee companies, the jurisdiction may mandate the use of IFRS consolidation rules for the purpose of determining the membership of a Group. Any such deviation from the accounting standards generally followed for the CbC report of a particular MNE Group should be noted in Table 3 of the CbC report for the MNE Group.

This guidance relates to what a jurisdiction may require from a Group which is a Group that is required to file a CbC report in the jurisdiction by reason of its Ultimate Parent Entity or Surrogate Parent Entity being resident in the jurisdiction.

#### 4. Treatment of major shareholdings (April 2017)

*Where there are minority interests held by unrelated parties in a Constituent Entity, should the previous year's consolidated group revenue include 100 percent of the Constituent Entity's revenue for the purpose of applying the 750 million Euro threshold (or near equivalent amount in local currency as of January 2015) to identify an Excluded MNE Group, or should the revenue be pro-rated? Further, should the entity's financial data that is included in the CbC report represent the full 100 percent or should it be pro-rated?*

Under the condition that accounting rules in the jurisdiction of the Ultimate Parent Entity require a Constituent Entity, the minority interests of which are held by unrelated parties, to be fully consolidated, 100 percent of the entity's revenue should be included for the purpose of applying the 750 million Euro threshold (or near equivalent amount in local currency as of January 2015). In such a case, the entity's financial data that is included in the CbC report should represent the full 100 percent amount and should not be pro-rated. In contrast, if the accounting rules require proportionate consolidation in the presence of minority interests, then the jurisdiction may allow the entity's revenue to be pro-rated for the purpose of applying the 750 million Euro threshold and may also allow its financial data that is included in the CbC report to be pro-rated.

## 5. Treatment of an entity owned and/or operated by more than one unrelated MNE Groups (July 2017) (NEW)

*Where an entity owned and/or operated by more than one unrelated MNE Groups (e.g. a joint venture entity) is consolidated in the consolidated financial statements of one or more of these MNE Groups, including under a pro rata consolidation rule, is such an entity considered a Constituent Entity of those unrelated MNE Groups (i.e. should it be included in Table 2)? If so, where a pro rata consolidation rule is applied to the entity under the applicable accounting rules, should Table 1 include the pro rata data of the entity, and should the entity's revenue be included pro rata for the purpose of applying the 750 million Euro threshold?*

The treatment of an entity for CbC reporting purposes should follow the accounting treatment. In the case of an entity which is owned and/or operated by more than one unrelated MNE Groups, the treatment of the entity for CbC reporting purposes should be determined under the accounting rules applicable to each of the unrelated MNE Groups separately. If the applicable accounting rules require an entity to be consolidated into the consolidated financial statements of an MNE Group, the entity would be considered as a Constituent Entity of that group under Article 1.4 of the Model Legislation. Accordingly, the financial data of such an entity should be reported in the CbC report of the MNE Group. This applies to entities included in the MNE Group's consolidated financial statements using either full consolidation or pro rata consolidation. If an entity is not required to be consolidated under applicable accounting rules, the entity would not be considered a Constituent Entity and, accordingly, the financial data of such an entity would not be reported in the CbC Report. Therefore an entity included in the MNE Group's consolidated financial statements under equity accounting rules would not be a constituent entity.

Where pro rata consolidation is applied to an entity in an MNE Group in preparing the group's consolidated financial statements, jurisdictions may allow a pro rata share of the entity's total revenue to be taken into account for the purpose of applying the 750 million Euro threshold, instead of the full amount of the entity's total revenue. Jurisdictions may also allow an MNE group to include a pro rata share of the entity's financial data in its CbC report, in line with the information included in the MNE Group's consolidated financial statements, instead of the full amount of this financial data.

## IV. Issues relating to the filing obligation for the CbC report

### 1. Impact of currency fluctuations on the agreed EUR 750 million filing threshold (June 2016)

*If Country A is using a domestic currency equivalent of EUR 750 million for its filing threshold, Country B is using EUR 750 million for its filing threshold, and as a result of currency fluctuations Country A's threshold is in excess of EUR 750 million, can Country B impose its local filing requirement on a Constituent Entity of an MNE Group headquartered in Country A which is not filing a CbC report in Country A because its revenues, while in excess of EUR 750 million, are below the threshold in Country A?*

As set out in the Action 13 Report, the agreed threshold is EUR 750 million or a near equivalent amount in domestic currency as of January 2015. Provided that the jurisdiction of the Ultimate Parent Entity has implemented a reporting threshold that is a near equivalent of EUR 750 million in domestic currency as it was at January 2015, an MNE Group that complies with this local threshold should not be exposed to local filing in any other jurisdiction that is using a threshold denominated in a different currency.

There is no requirement for a jurisdiction using a threshold denominated other than in euros to periodically revise this in order to reflect currency fluctuations. The appropriateness of the EUR 750 million threshold (and near equivalent amounts in domestic currency as of January 2015) may be included in the review of the CbC reporting minimum standard to occur in 2020.

## 2. Definition of total consolidated group revenue (April 2017)

***For the purpose of determining whether an MNE Group is an Excluded MNE Group, are extraordinary income and gains from investment activities included in total consolidated group revenue?***

In determining whether the total consolidated group revenue of an MNE Group is less than 750 million Euro (or near equivalent amount in local currency as of January 2015), all of the revenue that is (or would be) reflected in the consolidated financial statements should be used. A jurisdiction where the Ultimate Parent Entity resides is allowed to require inclusion of extraordinary income and gains from investment activities in total consolidated group revenue if those items are presented in the consolidated financial statements under applicable accounting rules.

For financial entities, which may not record gross amounts from transactions in their financial statements with respect to certain items, the item(s) considered similar to revenue under the applicable accounting rules should be used in the context of financial activities. Those items could be labeled as ‘net banking product’, ‘net revenues’ or others depending on accounting rules. For example, if the income or gain from a financial transaction, such as an interest rate swap, is appropriately reported on a net basis under applicable accounting rules, the term ‘revenue’ means the net amount from the transaction.

## V. Issues relating to the sharing mechanism for the CbC report (EOI, surrogate filing and local filing)

### 1. Transitional filing options for MNEs (“parent surrogate filing”) (June 2016; updated July 2017<sup>1</sup>)

*Can MNE Groups with an Ultimate Parent Entity resident in a jurisdiction whose CbC reporting legal framework is in effect for Reporting Periods later than 1 January 2016 voluntarily file the CbC report for fiscal periods commencing on or from 1 January 2016 in that jurisdiction? What is the impact of such filing on local filing obligations in other jurisdictions?*

All OECD and G20 countries, as well as others, have committed to implementing the minimum standard of Country by Country (CbC) reporting agreed in the Action 13 Report. The Action 13 Report recommended that countries implement a legal requirement for CbC reporting with respect to MNEs’ fiscal periods commencing on or from 1 January 2016. At the same time, the Action 13 Report recognises that “some jurisdictions may need time to follow their particular domestic legislative process in order to make necessary adjustments to the law.” Where jurisdictions are implementing CbC Reporting but will not be able to implement with respect to the fiscal period commencing from 1 January 2016, this therefore gives rise to a transition issue. Where other jurisdictions introduce a local filing obligation (which is an option but not a requirement under the Action 13 minimum standard) and do not otherwise provide any transition relief to address this issue - which some countries have done recognising the differences in legislative processes as noted in the Report - there is a need to issue guidance as to the local filing obligations that may arise during such a period.

In such situations, jurisdictions that will not be able to implement with respect to fiscal periods from 1 January 2016 may be able to accommodate voluntary filing for Ultimate Parent Entities resident in their jurisdiction. This would allow the Ultimate Parent Entities of an MNE Group resident in those jurisdictions to voluntarily file their CbC report for the fiscal periods commencing on or from 1 January 2016 in their jurisdiction of tax residence. This is referred to as “parent surrogate filing” because it is a form of surrogate filing, the framework for which is set out in the Action 13 Report. As such, parent surrogate filing does not alter the timelines or the minimum standard, and thus ensures the integrity of the agreement reached in the Action 13 Report.

Where surrogate filing (including parent surrogate filing) is available, it will mean that there are no local filing obligations for the particular MNE in any jurisdiction which otherwise would require local filing in which the MNE has a Constituent Entity (herein referred to as the Local Jurisdiction). This is subject to the following conditions:

1. the Ultimate Parent Entity has made available a CbC report conforming to the requirements of the Action 13 Report to the tax authority of its jurisdiction of tax residence, by the filing deadline (i.e. 12 months after the last day of the Reporting Fiscal Year of the MNE Group); and

1. The list of jurisdictions at the end of this guidance is dynamic and is updated periodically.



2. by the first filing deadline of the CbC report, the jurisdiction of tax residence of the Ultimate Parent Entity must have its laws in place to require CbC reporting (even if filing of a CbC report for the Reporting Fiscal Year in question is not required under those laws); and
3. by the first filing deadline of the CbC report, a Qualifying Competent Authority Agreement must be in effect between the jurisdiction of tax residence of the Ultimate Parent Entity and the Local Jurisdiction;<sup>2</sup> and
4. the jurisdiction of tax residence of the Ultimate Parent Entity has not notified the Local Jurisdiction's tax administration of a Systemic Failure; and
5. the following notifications have been provided:<sup>3</sup>
  - the jurisdiction of tax residence of the Ultimate Parent Entity has been notified by the Ultimate Parent Entity, no later than [the last day of the Reporting Fiscal Year of such MNE Group]; and
  - the Local Jurisdiction's tax administration has been notified by a Constituent Entity of the MNE Group that is resident for tax purposes in the Local Jurisdiction that it is not the Ultimate Parent Entity nor the Surrogate Parent Entity, stating the identity and tax residence of the Reporting Entity, no later than [the last day of the Reporting Fiscal Year of such MNE Group].

The jurisdictions which have confirmed they will have parent surrogate filing available consistent with the framework outlined above for Ultimate Parent Entities that are resident in their jurisdiction, with respect to fiscal periods commencing on or from 1 January 2016, are listed here: <http://www.oecd.org/tax/automatic-exchange/country-specific-information-on-country-by-country-reporting-implementation.htm>

2. A necessary condition for having a Qualifying Competent Authority Agreement in effect is that there is also an International Agreement in effect between the jurisdiction of tax residence of the Ultimate Parent Entity and the Local Jurisdiction.
3. If the tax administration in the jurisdiction where the Ultimate Parent Entity or Constituent Entity (as applicable) is resident for tax purposes chooses not to require notifications or has not specified a procedure for providing such notifications, then this condition will not be relevant. Furthermore, where such notification is required, the square brackets included in this section reflect that it is at the discretion of the jurisdiction to choose the notification date most appropriate in its domestic circumstances, for example the date that would coincide with the date for filing of a CbC Report.

## 2. CbC reporting notification requirements for MNE Groups during transitional phase (December 2016)

*Article 3 of the Action 13 model legislation for CbC reporting includes an option for jurisdictions to require notifications to be sent to the country tax administration identifying the Reporting Entity for the MNE Group. Where a Constituent Entity of an MNE Group is required to notify its tax administration of the identity and tax residence of the Reporting Entity (including the Surrogate Parent Entity) of the MNE Group by 31 December 2016 (with respect to the 2016 fiscal year), would it be consistent with the Action 13 minimum standard for jurisdictions to provide some transitional relief during the period in which domestic CbC legal frameworks and Qualifying Competent Authority Agreements are still being put in place?*

A practical issue may arise for a number of MNE Groups around the world which are currently in the process of identifying the reporting entity and considering whether to proceed with surrogate filing where local filing obligations would otherwise be applicable. This issue relates to the domestic notification requirements that Constituent Entities of MNE Groups may be subject to, requiring them to inform their tax administration about the identity of the Reporting Entity that will be filing the CbC report. In a number of cases these notifications will need to be submitted by 31 December 2016 with respect to the 2016 fiscal year.

However, the identity of the appropriate reporting entity may not be known by that time. This is because the identity of the reporting entity will depend on the domestic CbC legal frameworks and the international exchange of information relationships that are formed through Qualifying Competent Authority Agreements (QCAAs). Domestic legal frameworks are still being finalised, and Qualifying Competent Authority Agreements may not be in place by 31 December 2016.

MNE Groups that are seeking to comply with their legal obligations to provide notifications, where such obligations exist, therefore face a practical difficulty in doing so because necessary information will not be available. To address this issue, jurisdictions may provide some flexibility regarding the date for the notification requirement if applicable, as neither the Action 13 standard nor the model legislation requires the notification to be at the end of the reporting fiscal year. For example, jurisdictions which are introducing notification requirements may choose another date for notifications, such as the date for filing a CbC report or the date for filing a corporate tax return.

Jurisdictions which require notifications may also provide administrative guidance to allow transitional relief in respect of these requirements. For example, Constituent Entities could be authorised to provide a notification based on a preliminary assessment of the identity and tax residence of the Reporting Entity. An updated notification based on new information could be provided by the Constituent Entity by the date for filing the CbC report. Jurisdictions which require notifications could also provide transitional relief from penalties in connection with MNE Groups updating their notification.

Transitional relief in these circumstances would not be frustrating the policy intention of the Action 13 minimum standard.

In addition, to provide clarity as soon as possible to MNE Groups, jurisdictions will work towards bringing their Qualifying Competent Authority Agreements (QCAA) into effect as soon as possible so as to minimize this transitional issue.