KPMG cutting through complexity
EURO TAX FLASH
KPMG'S EU TAX CENTRE

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Euro Tax Flash from KPMG's EU Tax Centre

EU Commission Country-by-Country Reporting - Public Consultation

Corporate Tax Transparency – Tax Avoidance – Exchange of Information - Public Disclosure

On June 17, 2015 the EU Commission launched a public consultation on corporate tax transparency in the EU, which closed on September 9, 2015. The aim of the consultation was to gather more information and stakeholder opinions on whether requiring companies to disclose more information about the taxes that they pay in the countries where they operate could help tackle tax avoidance and aggressive tax practices within the EU. A response was submitted on behalf of the EU resident member firms of the KPMG EMA region following extensive discussions.

Background

The consultation is part of the EU Commission's Action Plan on a Fairer Corporate Tax System, launched on the same date, which aims to reform corporate taxation in the EU and sets out a series of initiatives to tackle tax avoidance, secure sustainable revenues and foster a business-friendly environment in the Single Market.

Scope of consultation

The consultation sought stakeholders' views on which companies should be subject to enhanced disclosure requirements, whether enhanced disclosure should be to tax authorities only or if disclosure should be to the wider public, and the type of information that should be disclosed. It was also possible to provide additional information and raise specific points not covered by the questionnaire through the submission of additional supporting documents. KPMG took this opportunity to submit a further explanatory memo summarizing our position.

KPMG response

The issues addressed are complex and the debate ongoing, nevertheless, it is widely acknowledged that there is scope for companies to be more transparent about their tax affairs and we believe that if properly balanced, increased corporate transparency in relation to taxation is inevitable and necessary.

The KPMG response submitted was broadly supportive of some aspects of enhanced disclosure, acknowledging that Country-by-Country Reporting to the tax authorities could be useful in combating tax evasion and avoidance, while recognizing that aggressive tax planning is not the norm for most enterprises. In this context, we argued that just as tax is a cost of business, the benefits to be achieved through greater transparency must be balanced with the costs of achieving it.

There is a growing patchwork of different rules for enhanced disclosure, each with their own objectives. This lack of a single coherent framework means that businesses can be faced with multiple requests for information, which inevitably increases the administrative costs of compliance.

KPMG argued that the scope of Country-by-Country Reporting should be limited to large groups established in the EU with revenue exceeding EUR 750 million. According to OECD projections, this would capture 90% of corporate revenues, while not unduly burdening the majority of EU enterprises with additional compliance requirements. This alignment with the BEPS Action 13 provisions would also help achieve an effective “level playing field” internationally and ensure that the EU does not become less attractive as a base for commercial activities relative to other locations.

There is a risk that publicly disclosed information may not be properly understood and may be misinterpreted due to a lack of technical knowledge or sensationalized reporting in the press. This, together with the associated costs of compliance, could negatively impact on the attractiveness of the EU as a place to invest in the short term at least. Public disclosure could help achieve some of the objectives of the EU Commission, however the different sectors in which enterprises operate, their different stages of maturity and different commercial strategies means there can be no “one size fits all” approach to the form of public disclosure. We believe that companies should be free to choose the form of disclosure which they feel gives the clearest picture of their situation. Accordingly, the EU should encourage voluntary disclosure that would include explanatory narrative that would be of use to an enterprise’s own stakeholders, in addition to data.

Further details of the consultation together with a copy of the KPMG response submitted can be seen on the EU Commission Website.

Should you require further assistance in this matter, please contact the EU Tax Centre or, as appropriate, your local KPMG tax advisor.

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Back to top

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