



TaxNewsFlash

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IRS practice unit: Country-by-country (CbC) report in the transfer pricing risk analysis process

The IRS Large Business and International (LB&I) division publicly released a “practice unit”—part of a series of IRS examiner “job aides” and training materials intended to describe for IRS agents leading practices about tax concepts in general and specific types of transactions.

The title of the “process unit” (as referred to by the IRS) is: *Country-by-country (CbC) report in the transfer pricing risk analysis process*

The purpose of the practice unit is to:

- Describe the background that led to the required filing of Form 8975 and accompanying Form 8975, Schedules A by certain U.S. multinational enterprises (MNEs)
- Provide guidance about the appropriate use of these forms in the IRS high-level transfer pricing risk assessment process

Read the process unit on the [IRS practice unit webpage](#) (posting date of April 25, 2022).

Background

An overview of the practice unit explains that the three recommended documents (Master file, Local file, and CbC report) require taxpayers to articulate consistent transfer pricing positions. The CbC report is intended to be used by tax administrations only for the purpose of assessment of high-level transfer pricing risks and other BEPS-related risks, but not as the basis for computing tax liabilities. The United States is not currently requiring the preparation or filing of the Master file and Local file since substantially similar information is required under section 6662(e) transfer pricing documentation. It is requiring the preparation of a CbC report.

U.S. Treasury and the IRS in June 2016 published regulations that require certain U.S. persons that are the ultimate parent entity of an MNE group with annual revenues for the preceding reporting period of \$850 million or more to file annually with the IRS a Form 8975, *Country-by-Country Report*, and

accompanying Schedules A (Form 8975), *Tax Jurisdiction and Constituent Entity Information*—collectively the “U.S. CbC Report.”

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