Public Country by Country Reporting:

What should businesses be doing to prepare?

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What is Country by Country Reporting (CbCR)?

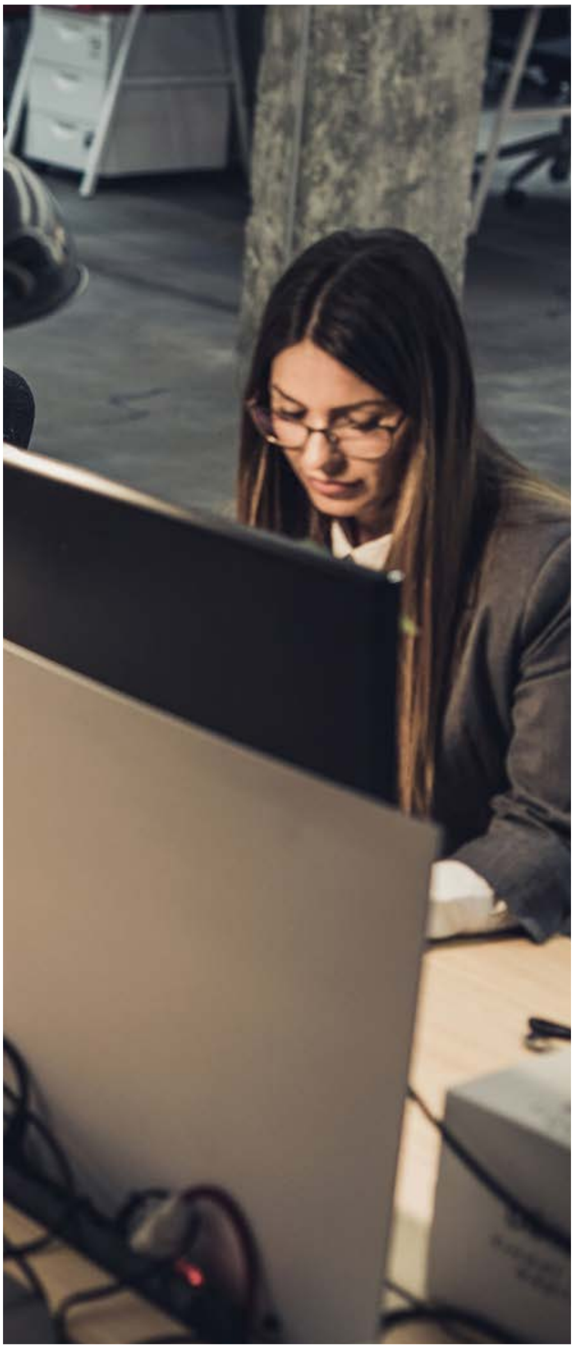
The Organisation for Economic Co-operation and Development (OECD) adopted a form of CbCR as a high level risk assessment tool for tax administrations, as part of its project to strengthen international standards on Base Erosion and Profit Shifting (BEPS). It is applied in the UK to accounting periods commencing on or after 1 January 2016.

The OECD's CbCR is a confidential document presented, as a general rule, to the tax authorities in the country of the ultimate parent entity (UPE).

EU Public CbCR: should I be complying with the legislation even if I am not headquartered in the EU?

A public EU CbCR Directive (the Directive) was agreed by the Member States and European Parliament and came into force on 21 December 2021. Member States will have to implement it into domestic law for the financial year starting on or after 22 June 2024, at the latest, with first disclosures a year after the end of the period. The measure requires both EU-based multinational enterprises (MNEs) and non-EU based MNEs doing business in the EU through a branch or subsidiary with total consolidated revenue of more than €750 million in each of the last two consecutive financial years to report publicly the income taxes paid and other tax-related information such as a breakdown of profits, revenues and employees.

The information must be broken down for each EU Member State where the group is active and also for each jurisdiction deemed non-cooperative by the EU or that has been on the EU's 'grey' list for a minimum of two years. Information concerning all other jurisdictions may be reported on an aggregated level.



CbCR requirements comparison chart:

A comparison of CbCR data requirements	GRI 207-4	OECD	EU pCbCR	US pCbCr proposals
Total revenue	×	✓	✓	✓
Revenue from third parties	✓	✓	×	✓
Revenue from related parties	Between jurisdictions only	✓	×	✓
Profit/loss before tax	✓	✓	✓	✓
Gash tax paid	✓	✓	✓	✓
Tax accrued	✓	✓	✓	✓
Tangible assets other than cash and cash equivalents	✓	✓	×	✓
Number of employees	✓	✓	✓	✓
Reasons for the difference between accrued CIT and statutory rate	✓	×	×	×
Total accumulated earnings	×	✓	✓	✓
Stated capital	×	✓	×	✓

Reports are to be published on companies websites except in relation to a Member State that provides for it to be on the business register instead, where they should remain accessible for at least five years. **Where the ultimate parent is not governed by the law of an EU Member State, the reporting will generally have to be done by the EU subsidiaries or branches**, unless the ultimate parent publishes a report including those subsidiaries and branches.

If transposition does not occur ahead of the mandated timeline, businesses can expect that the additional disclosure requirements will become applicable to accounting periods beginning in 2025, and that public disclosure will be first required in 2026.

How to prepare for Public CbCR requirements?

MNEs, regardless of whether their UPE is located in the EU, should already be considering whether they fall within the scope of the new public EU CbCR rules. For many businesses, this will require the reporting of such information publicly for the first time and they should, therefore, start preparing for its external release.

We highlight four areas that businesses need to consider in preparation for EU CBCR disclosures:

1 Obtain comfort over your data

Whilst most companies are reasonably confident with the assumptions made during the preparation and the accuracy of their CbCR data, now is a good time to bring other stakeholders onto the same page. Sustainability teams and the Board need to be part of the conversation, to raise awareness as to how the data could be perceived.

Furthermore, companies should consider using data automation to help accurately and efficiently compile information for their CbC reports, embedding controls and analytics.

2 Contradictions over already publicly available data

Businesses need to ensure the information to be made publicly available is consistent with any company data that is already in the public domain. For example, is Revenue aligned to geographical segments in your financial statements? Does it agree with public Total Tax Contribution (TTC) figures? Would the number of employees align with the sustainability or financial statements? If not, why?

3 Use public CbCR as an opportunity to write your own narrative

Tax is a complex topic. Without supplementary narrative to the data, the reporting may cause reputational damage for a company if it is taken out of context. Public CbCR gives businesses the opportunity to explain the numbers disclosed, ensuring the conclusions drawn are accurate, meaningful and balanced.

CbCR focuses on corporation tax, which is only one of the taxes borne by multinational enterprises (MNEs). Companies pay many other taxes, with corporation tax making up a small part of total tax receipts (generally less than 10% in the OECD)[1]. Notwithstanding, corporation tax remains the most examined and most debated tax that companies pay. Understandably, given its high profile, calls for greater transparency often focus on it. Companies could consider providing additional information on their TTC, to provide a more comprehensive picture of their contribution to society. TTC illustrates how MNEs take responsible tax management seriously, abide by their ESG commitments, and contribute towards public finances.

Furthermore, the data requirements for public CbCR are limited, which can make the information difficult to interpret and analyse from a tax technical perspective. Where CbCR data is made public, caution should be exercised to avoid misunderstandings. Appropriate context is vital in ensuring valid insights are drawn from the data.

Linking CbCR to your ESG strategy and the contribution you are making to society could be a positive outcome of the directive. Some ESG rating frameworks include CbCR as part of their tax metrics (e.g., the Global Reporting Initiative) so linking it to your wider sustainability strategy might enhance your ESG ratings.

4 Benchmarking of other companies in your sector to elaborate the plan of response

Finally, useful insights can be obtained from benchmarking against peers. It may inform your attitude towards tax transparency and help you understand how you are placed, as well as understanding how others have built their narrative around the data.

In conclusion: tax transparency and the wider context

There are increased expectations by stakeholders of companies to meet strong ESG values. Therefore, complying with the amended directive should be considered as part of the broader consideration of overall tax strategy, governance and ESG objectives. The extent of the required public disclosures is unprecedented for many companies and careful consideration should be given to how CbCR data may be interpreted.

In conclusion, consider developing how your approach to tax transparency fits in the context of your wider ESG strategy, taking into account your broader stakeholder group. As part of this strategy, publishing information relevant to other taxes in addition to profit taxes, might present a more comprehensive view of the contribution of your business to society. These disclosures could be accompanied with narrative to guide the stakeholders.

Our specialist team at PwC can support organisations on the preparation and implementation of the new public CbCR directive, as well as their wider tax transparency strategy to ensure a consistent clear narrative of the business is being presented.

[1] For more information on Tax Transparency and Public CbCR, please refer to the European Business Tax Forum's study available at https://ebtforum.org/wp-content uploads/2022/04/Tax-Transparency-and-Public-Country-by-Country-Reporting-study-2022-Report.pdf.

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