

Why country-by-country reporting is part of tax reporting

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The objective of TP documentation

- TP documentation does not exist to show that the arm's length pricing approach has been properly documented.
- We think TP documentation exists to evidence that a multinational corporation has made an appropriate apportionment of its taxable profits between the various states in which it operates.

The tax documentation need of tax authorities

- Tax authorities need documentation to be supplied that maximises their chance of identifying those multinational corporations that have not made an appropriate apportionment of its taxable profits between the various states in which it operates.

Identifying tax risk

Any risk assessment tool for transfer pricing documentation has as a minimum to be able to reliably:

- Identify taxable transactions as a sub-set of all transactions;
- Identify international intra-group transactions;
- Give indication as to the location of likely profit drivers indicating the appropriateness of the location of recording of relatively low risk transfer priced transactions i.e. those relating to routine trades;
- Provide the clearest possible indication of the location of all transactions, but especially those likely to be subject to transfer pricing review e.g. finance, royalties and hedging;
- Give the clearest possible indication of the location of the net benefit (taxable profit) arising from taxable transactions;
- Indicate the potential likely revenue impact of challenging any arrangement, but most especially those in high-risk categories.

Country-by-country reporting

CBC reporting if prepared as advocated by civil society would provide the data needed for effective tax risk assessment:

- A full summary of the group's composition;
- A full summary of all intra-group trading by the group split between:
 - Sales on both a source and origin basis
 - Hedging and derivatives
 - Cost of sales
 - Financing
- A world wide labour force break down by head count and cost
- Profits and tax paid by location, as well as tax deferral by location so that the impact of tax planning between states is made clearer;
- The location of assets
- Payments for intangibles

How to make CBC pay

There is a cost – albeit we contend small – to preparing CBC reporting but:

- The potential cost saving from consistent combined CBC reporting to tax authorities is high in terms of both tax collected and enhanced work effectiveness from better risk review
- If safe harbours were given to MNCs appearing to allocate profit appropriately based on key allocation drivers (sales, labour, assets) then the need for extensive transaction based documentation could be reduced
- In that case the savings on TP documentation could significantly outweigh the cost of CBC for tax compliant companies
- We believe CBC with combined consistent reporting to all tax authorities provides significant saving potential for tax compliant companies
- There is a double win in that case for CBC