Country by Country Reporting for Financial Services Organisations

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Country by Country Reporting

Certain financial entities will be familiar with country by country reporting for the purposes of Capital Requirements Directive IV (CRD IV). However, in line with OECD's Base Erosion and Profit Shifting (BEPS) Action 13, Finance Act 2015 introduced similar (and in addition to CRD IV reporting) Country by Country Reporting (CbCR) for all large groups subject to certain exemptions.

What is CbCR?

Entities within scope are required to disclose certain details, for each jurisdiction that they operate in, including:

- Revenue
- Profit before tax and income taxes paid and accrued
- Number of employees

When does it apply?

If in scope, CbCR is in place from 1 January 2016 and reports must be filed within 12 months of the financial year end.

What happens if not complied with?

Failure to comply with the relevant reporting deadline could trigger a penalty of €19,045 and in some cases a further penalty of €2,535 per day until the CbC report is submitted.

Is your organisation in scope?

Certain multinational organisations operating in Ireland whose consolidated annual revenue for the immediately preceding accounting period exceeds €750 million will be obliged to provide annually, and for each tax jurisdiction in which they carry on business, a country by country report. There are no industry exemptions for CbCR. Collective investment schemes and special purpose investment vehicles that are part of international groups are within scope.

Organisations that do not have a reporting requirement will, most likely, have a requirement to notify the Revenue of their status for the purposes of CbCR.

How will CbCR affect the business?

There will be increased tax risks for the business, as well as increased resources and data management. The time spent on the CbCR process will be driven by the challenge in obtaining the appropriate data from the various information systems and the ability and capacity of the tax team to collect, collate and review the data. It is therefore important to start considering now the source information and establish processes to prepare, implement, submit and monitor the CbCR requirements.

How will your CbC report be viewed by others?

The legislation provides for CBCR to be shared between tax authorities but not made public. The Multilateral Competent Authority Agreement for the automatic exchange of CBC reports was signed by 31 countries, not including the US, in January.

Entities need to consider how their CbCR report will look and whether it tallies with information already available to tax authorities, such as submitted returns, results of audits or investigations, transfer pricing agreements etc.

There is strong political support for making CbCR publically available on a multilateral basis and it is likely that CbCR will become publically available in the near future.

Won't this be an issue just for Head office?

No. Ireland may be the main reporting jurisdiction if CbCR is not introduced in the parent's jurisdiction (for 2016 Irish subsidiaries of US groups may be within scope). Further, the Irish operation, if it does not have a distinct reporting obligation would need to consider how its information will be disclosed in any consolidated CbC report

The definitions provided for in the CbCR legislation are not easily transferable to specialist financial organisations. For example the definition of revenue. We expect this area to be problematic, in particular for insurance entities and investment vehicles. In addition determination of annual consolidated revenue will need consideration. Equally the concept of 'preceding financial year' as a basis for determining reporting will be difficult to apply in practice for certain financial institutions as returns may be volatile and may result in the entity meeting an exemption in one year but failing in the next and so on.

Financial entities that up to now have not prepared, or considered, transfer pricing documentation will no doubt experience the biggest impact to their business.

Have you considered the business risk associated with CbCR?

As part of managing the risk associated with CbCR some of the important questions you need to consider in order to assess CbCR are:

- What is my global visibility into the financial data that will make up the CbCR? **Can I rely on local entities' information?**
- If the Irish entity is not required to prepare a CbC report **do I have visibility over what is included in the overall CbC report** in connection with the Irish entity?
- Have I employee resources to reconcile extracted data to ensure it corresponds with **submitted tax returns?**
- How will I be able to **audit** the process?
- What is the **scope** of 'income tax paid'. There will be extra emphasis placed on items such as sourcing cash tax paid and assessing for withholding taxes paid.
- Will you be able to **repeat the process efficiently year after year?**

CbCR readiness can help mitigate the increasing tax risk facing organisations. Organisations that can quickly and clearly explain their tax transactions and strategies— are better positioned to manage tax risks. CbCR readiness ensures your reporting aligns with your organisation's business model and overall tax risk.

How can EY benefit you?

Entity assessment – We can carry out an entity assessment to confirm whether your organisation is impacted by CBBR?

Data extraction and support – We can extract data from different systems and consolidate this information into one data environment.

'Trial runs'/Dry run – We will carry out dry runs of the report to test the process, length of time required and consider the challenges with submitting reports online and foreseeing any delays.

Professional and expert opinion – An expert team to analyse CbCR data and provide interpretation on technical definitions along with an assessment on the wider tax impact.

Assessment review – EY can conduct a gap analysis to identify potential data gaps in your company's financial data systems and provide feedback to your finance team on how this information may be interpreted.

It is important that appropriate consideration and preparation is taken in advance of your CbCR obligations. CbCR will require quality data and this will allow for more accurate tax planning and forecasting.

Our team includes experts in systems, tax operations and transfer pricing specialists.

Should you wish to discuss CbC reporting and how it applies to your business, please contact the below or your usual EY contact.

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