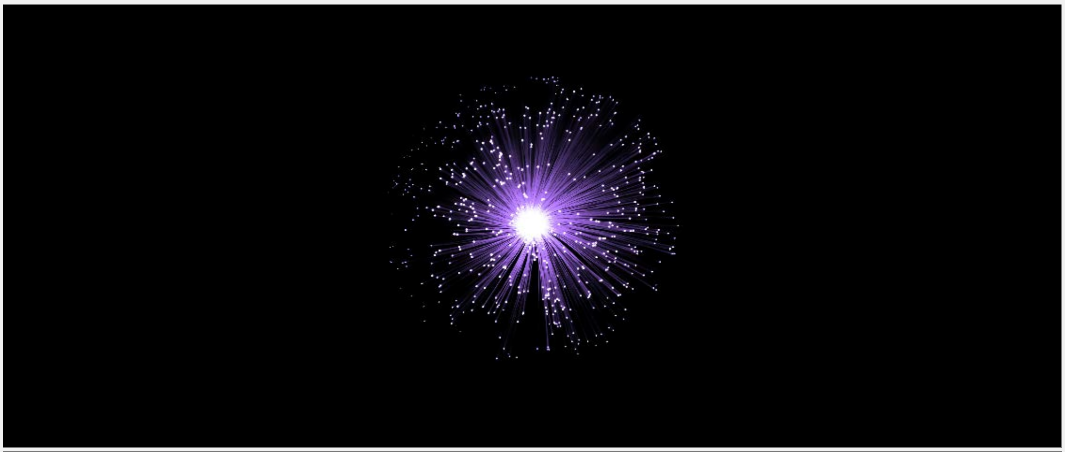

OECD Forum on Tax Administration issues handbooks to address implementation and use of CbC reports

Global Transfer Pricing Alert 2017-044

The OECD Forum on Tax Administration (FTA) put out a communique at the conclusion of its plenary meeting on 29 September announcing the publication of two handbooks that are intended to help tax administrations prepare for the first exchanges of country-by-country (CbC) reports in June 2018. The two handbooks – *Country-by-Country Reporting: Handbook on Effective Implementation* and *Country-by-Country Reporting: Handbook on Effective Tax Risk Assessment*, are meant to assist tax authorities to use the information received through the exchange of country-by-country information within their tax risk assessment framework.

The FTA, which brings together the tax commissioners of 50 tax administrations worldwide, acknowledges that when CbC reporting is implemented, "it will give tax authorities unprecedented access to information on the global allocation of an MNE group's revenue, profit, tax and other attributes for high level transfer pricing risk assessment and the assessment of other BEPS-related risks." In addition to giving insight into how tax administrations should use CbC information, this action by the FTA is another indicator that along with increased transparency efforts, tax administrators are increasingly inclined to act in a coordinated manner when performing risk assessment and enforcement of transfer pricing and other BEPS-related issues.

The 88-page handbook on effective tax risk assessment supports countries in the effective use of CbC reports by incorporating them into a tax authority's risk assessment process, including:

- A description of the role of tax risk assessment in tax administration, the core characteristics of an effective risk assessment system, and examples of the approaches used in different countries;
- An outline of the information contained in CbC reports, and the potential advantages CbC reports have over data from other sources;
- Consideration of the ways in which CbC reports can be incorporated into a tax authority's risk assessment framework, and a description of some of the main potential tax risk indicators that may be identified using CbC reports;
- A description of some of the challenges a tax authority may face in using CbC reports for tax risk assessment, and how some of these challenges may be dealt with;
- An outline of some of the other sources of data a tax authority may use along with CbC reports; and
- An overview of how the results of a tax risk assessment using CbC reports may be used and the next steps that should be taken.

The handbook includes a list of 19 specific tax risk indicators that could be derived from the information contained in an MNE group’s CbC report, although the guidance specifies that none of these indicators, taken by themselves, would suggest that a group poses an increased tax risk in a given jurisdiction:

1. The footprint of a group in a particular jurisdiction
2. A group’s activities in a jurisdiction are limited to those that pose less risk
3. There is a high value or high proportion of related-party revenues in a particular jurisdiction
4. The results in a jurisdiction deviate from potential comparables
5. The results in a jurisdiction do not reflect market trends
6. There are jurisdictions with significant profits but little substantial activity
7. There are jurisdictions with significant profits but low levels of tax accrued
8. There are jurisdictions with significant activities but low levels of profit (or losses)
9. A group has activities in jurisdictions that pose a BEPS risk
10. A group has mobile activities located in jurisdictions where the group pays a lower rate or level of tax
11. There have been changes in a group’s structure, including the location of assets
12. Intellectual property is separated from related activities within a group
13. A group has marketing entities located in jurisdictions outside its key markets
14. A group has procurement entities located in jurisdictions outside its key manufacturing locations
15. Income tax paid is consistently lower than income tax accrued
16. A group includes dual resident entities

17. A group includes entities with no tax residence
18. A group discloses stateless revenue in Table 1
19. Information in a group's CbC report does not correspond with information previously provided by a constituent entity.

Both handbooks are available in English, Spanish, and French.

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