

Luxembourg Tax Alert

Country-by-country reporting

05 August 2016

On 2 August 2016, the Luxembourg Parliament issued a draft tax law introducing country-by-country (CbC) reporting obligations based on the recommendations in the OECD's final reports on the base erosion and profit shifting (BEPS) initiative and transposing Council Directive (EU) 2016/881 regarding the mandatory automatic exchange of information in the field of taxation.

The draft law intends to implement Council Directive (EU) 2016/881 and BEPS Action 13 based on the Multilateral Competent Authority Agreement signed by Luxembourg. The proposed CbC rules would require Luxembourgish ultimate parent entities of multinational companies with a consolidated group turnover of EUR 750 million or more to file a CbC report with the Luxembourg competent tax authority (l'Administration des contribution directes).

1. CbC Report

According to the draft tax law, and in line with the OECD guidance, the CbC report consists of three parts:

- (i) an overview of the aggregate allocation of income, taxes, and business activities (including capital, assets, and employees) to each tax jurisdiction;
- (ii) a list of all "constituent entities" of the multinational group included in the aggregation for each tax jurisdiction; and
- (iii) additional information that is necessary to understand the information provided for the first two parts.

The draft law also envisages, subject to conditions, a secondary filing mechanism whereby a "surrogate parent entity" or any "constituent entity" that is not the ultimate parent company, may be designated as a "reporting entity".

It also includes rules for the determination of a "surrogate parent entity" and a "constituent entity" resident in Luxembourg as a "reporting entity" for the purposes of the CbC reporting rules. The "reporting entity" is obliged to communicate to the competent tax authority.

1.1. Submission deadline

The CbC report must be filed for fiscal years starting on or after January 1, 2016. The deadline for the submission of CbC reports is 12 months after the last day of the relevant fiscal year.

First reporting period: Fiscal year starting as from 1 January 2016 (First fiscal year)

First reporting deadline: 12 months following the end of the First fiscal year.

*As an example, a Luxembourg-resident Reporting entity will have to submit the first CbC report **by the 1st of January, 2018**, at the latest, provided the fiscal year concurs with the calendar year.*

1.2. Exceptions

Expectedly, a threshold for filing a CbC report has been implemented in the amount of EUR 750 million (or an equivalent amount in local currency as per January 2015) of consolidated group revenue. If the threshold is not exceeded in the preceding fiscal year, the multinational group does not have to prepare a CbC report.

1.2. Penalties

The draft law provides for a penalty of up to EUR 250.000 where:

- (i) the CbC report is not filed within the prescribed period, or if the data to be submitted is incomplete or incorrect;
- (ii) the conditions subject to which a Reporting entity is designated have not been observed; and
- (iii) the relevant notifications to the competent tax authority have not been submitted.

The comments on the draft law make it clear that the motives of the Reporting entity to not comply should be taken into account for the determination of the amount of the penalty. This amount is aligned on penalties for similar non-compliance with FATCA reporting obligations.

2. Automatic exchange of CbC reports

The draft law introduces a mechanism for the automatic exchange of CbC reports between the competent tax authorities in Luxembourg and the jurisdictions in which a reporting obligation arises (“jurisdiction soumise à déclaration”).

As a result, the automatic exchange of CbC reports will be initiated with EU Member States as well as with other jurisdictions, as signatories to the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports under BEPS Action 13.

A list of all jurisdictions with which automatic exchange is to be initiated is expected to be included in a separate decree.

With respect to deadlines, the Luxembourg competent tax authorities are obliged to exchange CbC reports within 3 months of their submission. The delay for exchanging the CbC reports covering the first covered fiscal year starting on or after January 1, 2016, is extended to 6 months.



Next Steps

The Luxembourg parliament must now review, discuss and, if necessary, modify the draft law before it can be approved.

How Deloitte can help you

Deloitte can assist and advise companies on the existence of CbC reporting obligation with respect to their operations in Luxembourg, as well as on the compliance requirements in terms of necessary data and format.

Should you require advice and assistance on this future new obligation, please do not hesitate to contact our team of experts.

Your contacts

Raymond Krawczykowski

Partner | Tax Leader

Tel: +352 451 452 500

rkrawczykowski@deloitte.lu

Stephan Tilquin

Partner | International Tax - Transfer Pricing

Tel: +352 451 452 592

stilquin@deloitte.lu

Balazs Majoros

Partner | International Tax - Transfer Pricing

Tel: +352 451 453 047

bmajoros@deloitte.lu

Deloitte Luxembourg

560, rue de Neudorf

L-2220 Luxembourg

Tel: +352 451 451

Fax: +352 451 452 401

www.deloitte.lu

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