U.S. Multinational Companies to Begin Country-by-Country Tax Reporting

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U.S. parent companies of multinational corporate groups will be required to begin country-by-country reporting of their tax payments, likely beginning with their taxation years ending in 2017. Taxpayers have until March 22, 2016 to submit comments to the U.S. government on the proposed regulations to enact this measure.

The U.S. federal government proposes U.S. country-by-country reporting requirements for U.S. ultimate parent entities of multinational enterprises with consolidated revenue of US$850 million or more in the preceding financial year. The first reporting period for qualifying multinational enterprises will depend on the date that proposed regulations are adopted by the U.S. Treasury, but it appears that the first reporting will be required for taxation years ending in 2017.

The proposed regulations were published in the U.S. government's Federal Register on December 23, 2015. Any comments taxpayers want to make about these regulations must be received within 90 days of this date, i.e., March 22, 2016.

The new country-by-country reporting form will need to be filed with the entity's U.S. income tax return. As such, the form would be due by the income tax return's filing due date. The IRS is currently developing the reporting form.

OECD's recommendations for country-by-country reporting

Country-by-country reporting of tax payments is part of new transfer pricing reporting standards developed under Action 13 of the OECD's project to reduce base erosion and profit shifting (BEPS) by multinational enterprises.

The OECD released details for implementing a new country-by-country reporting plan in June 2015. This package is intended to allow tax administrations to obtain a complete understanding of the way multinational enterprises structure their operations, while safeguarding the confidentiality of such information.

The implementation package consists of model legislation requiring the parent entity of a multinational group to file the country-by-country report in its jurisdiction of residence. The

package also includes three model competent authority agreements to facilitate the exchange of country-by-country reports.

The OECD recommended a three-tiered approach to documentation that includes preparing the following:

- Master file — containing information about how the multinational enterprise operates and its key intra-group transactions
- Local file — containing information about how the intra-group transactions of an individual entity conform to the arm's length standard
- Country-by-country report — containing financial metrics for each country the multinational enterprise operates in.

The OECD's implementation guidance recommended a prior-year €750 million total group revenue threshold (approximately CAN$1 billion).

The OECD recommended that country-by-country reporting be implemented to be effective for any fiscal year of the parent of a multinational group beginning on or after January 1, 2016, with a filing due date 12 months after the end of the fiscal year.

Canada's plans for country-by-country reporting
Canada has not yet introduced mandatory country-by-country reporting requirements. However, at the Canadian Tax Foundation's 2015 Annual Conference, Finance officials acknowledged that Canada will have to make legislative changes to implement country-by-country reporting for the 2016 taxation year.

Read more about U.S. country-by-country reporting measures

For details on the proposed U.S. measures, see "Proposed regulations: Country-by-country reporting; text of regulations", along with other news from KPMG in the U.S.

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We can help

Your KPMG adviser can help you assess the effect of the U.S. country-by-country reporting requirements on your business, and point out ways to take advantage of any benefits arising from the requirements or help mitigate their impact. For more details on these requirements and their potential impact, contact your KPMG adviser.