



Country-by-country reporting

Who is likely to be affected?

Multinational enterprises (MNEs) with a parent company in the UK.

General description of the measure

The measure will enable the introduction of a new statutory requirement for MNEs to make an annual country-by-country report to HM Revenue & Customs (HMRC) showing for each tax jurisdiction in which they do business:

- the amount of revenue, profit before income tax and income tax paid and accrued; and
- their total employment, capital, retained earnings and tangible assets.

MNEs will also be required to identify each entity within the group doing business in a particular tax jurisdiction and to provide an indication of business activities within a selection of broad areas which each entity engages in.

The obligation to file a country-by-country report will be introduced in two stages. At this initial stage, this measure will enable regulations to be made at a later date which will give effect to the scope and detail of the obligation.

Policy objective

This measure will provide HMRC with information about multinational companies' global activities, profits and taxes. This will help HMRC to better assess international tax avoidance risks. It is intended that the information reported by MNEs will be shared with other relevant tax jurisdictions so that they too can identify when MNEs have engaged in certain forms of base erosion or profit shifting activity.

Background to the measure

The Government announced on 20 September 2014 that it would implement the country-by-country reporting template developed by the Organisation for Economic Co-operation and Development (OECD) as part of its project to strengthen international standards on Base Erosion and Profit Shifting (BEPS). The template is contained in the OECD's report "Guidance on Transfer Pricing Documentation and Country-by-Country Reporting" published on 16 September 2014.

Regulations enabled by this measure will be made once the OECD has completed further work on how the reports should be filed and how the information in them may be shared between relevant countries, and after a period of consultation in the UK.

Detailed proposal

Operative date

This measure will have effect on and after the date of Royal Assent to Finance Bill 2015.

Current law

There is no current law for country-by-country reporting.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to give the Treasury the power to make regulations to require MNEs to provide HMRC with a country-by-country report.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	+5	+5	+10	+10	+15
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals, households and families	As this measure applies only to MNEs, it is not expected to impact on family formation, stability or breakdown.					
Equalities impacts	As this measure does not apply to individuals there is unlikely to be an equalities impact.					
Impact on business including civil society organisations	This measure will affect UK-headed multinational groups. This measure will provide the basis for an obligation for approximately 1400 UK-headed multinational groups to complete a template every year.					
	There is expected to be a negligible one-off cost in the first year as businesses will need to familiarise themselves with the new requirements, gather relevant information and provide training to staff. Businesses will also incur an annual on-going administrative burden associated with populating the template. One-off costs are estimated as negligible, with annual costs to businesses affected by the measure of £0.2 million.					
	This measure is expected to have no impact on civil society organisations.					
		Cost		Time Period (yrs)		
	Compliance Costs					
	One-off Costs	negligible		N/A		
	Average Annual Costs	£0.2m		5		
	Total Costs (PV)	£1.9m		N/A		
	Compliance Benefits					
	One-off Benefit	N/A		N/A		
	Average Annual Benefit	N/A		N/A		
Total Benefit (PV)	N/A		N/A			
Net Benefit (NPV)	-£1.9		N/A			

	Impact on Administrative Burden (included in Net Benefit)		
	Increase	Decrease	Net Impact
	£0.2m	£0	£0.2m
Operational impact (£m) (HMRC or other)	There will be no significant operational impact on HMRC until regulations are made. Thereafter, there will be a modest cost to HMRC from receiving and processing the reports and also from responding to requests to exchange information from tax authorities in other jurisdictions estimated at £100,000 for 2017-18 and £200,000 a year thereafter.		
Other impacts	Other impacts have been considered and none have been identified.		

Monitoring and evaluation

Monitoring and evaluation requirements will be established during the second stage of implementation as detailed regulations are developed.

Further advice

If you have any questions about this change, please contact Anne Stark on 03000 585904 (email: anne.b.stark@hmrc.gsi.gov.uk).

1 Country-by-country reporting

- (1) The Treasury may make regulations for implementing the OECD's guidance on country-by-country reporting.
- (2) "The OECD's guidance on country-by-country reporting" is the guidance on country-by-country reporting contained in the OECD's Guidance on Transfer Pricing Documentation and Country-by-Country Reporting, published in 2014 (or any other document replacing that Guidance).
- (3) In subsection (1), the reference to implementing the OECD's guidance on country-by-country reporting is a reference to implementing the guidance to any extent, subject to such exceptions or other modifications as the Treasury consider appropriate.
- (4) Regulations under this section may in particular –
 - (a) require persons specified for the purposes of this paragraph ("reporting entities") to provide HMRC with information of specified descriptions;
 - (b) require reporting entities to provide the information –
 - (i) at specified times,
 - (ii) in relation to specified periods of time, and
 - (iii) in the specified form and manner;
 - (c) impose obligations on reporting entities (including obligations to obtain information from specified persons for the purposes of complying with requirements imposed by virtue of paragraph (a));
 - (d) make provision (including provision imposing penalties) about contravention of, or non-compliance with, the regulations;
 - (e) make provision about appeals in relation to the imposition of any penalty.

"Specified" means specified in the regulations.
- (5) The regulations may allow any requirement, obligation or other provision that may be imposed or made by virtue of subsection (4)(a), (b) or (c) to be imposed or made instead by a specific or general direction given by the Commissioners for HMRC.
- (6) The regulations may –
 - (a) provide that a reference in the regulations to a provision of the Guidance mentioned in subsection (2) (or to a provision of any document replacing that Guidance) is to be read as a reference to the provision as amended from time to time;
 - (b) make different provision for different purposes;
 - (c) contain incidental, supplemental, transitional, transitory or saving provision.
- (7) In this section –

"HMRC" means Her Majesty's Revenue and Customs;

"the OECD" means the Organisation for Economic Co-operation and Development.
- (8) The power of the Treasury to make regulations under this section is exercisable by statutory instrument; and any statutory instrument containing such regulations is subject to annulment in pursuance of a resolution of the House of Commons.

EXPLANATORY NOTE

COUNTRY-BY-COUNTRY REPORTING

SUMMARY

1. Clause [X] gives the Treasury a power to make regulations to introduce country-by-country reporting. It means that the Treasury will be able in the future to implement recommendations made by the Organisation for Economic Co-operation and Development (OECD) on country-by-country reporting and require UK-based multinational enterprises to report for each tax jurisdiction in which they have a presence how their revenue, profit and taxes are allocated, as well as other indicators of economic activity.

DETAILS OF THE CLAUSE

2. Subsection (1) introduces a power to make regulations to implement country-by-country reporting.
3. Subsection (3) provides that the Treasury may modify the way in which the country-by-country reporting requirement is implemented.
4. Subsection (4) and subsection (6) set out particular matters which may be dealt with by regulations, including who will be required to make the report, the timing and form of the report, and penalties for failing to comply with the regulations.
5. Subsection (5) enables the regulations to allow certain requirements, obligations or other provisions within subsection (4) to be made by directions given by the Commissioners of HM Revenue & Customs.
6. Subsection (8) provides that the regulations will be made by statutory instrument. The regulations will be subject to negative procedure.

BACKGROUND NOTE

7. The OECD developed a country-by-country reporting template and accompanying guidance as part the strand of work in the OECD/G20 Base Erosion and Profit Shifting (BEPS) project intended to strengthen international standards on tax transparency. The reporting template requires multinational enterprises to show for each tax jurisdiction in which they do business:

- the amount of revenue, profit before income tax and income tax paid and accrued; and
- their total employment, capital, retained earnings and tangible assets.

Multinational enterprises will also be required to identify each entity within the group doing business in a particular tax jurisdiction and to provide an indication of business activities within a selection of broad areas which each entity engages in.

8. The country-by-country report is intended to be a risk-assessing tool to help tax administrations assess whether multinational groups may have engaged in transfer pricing or other practices in order to artificially reduce their taxable profit or shift their income into jurisdictions where they will pay less tax. The Government announced on 20 September 2014 that it is committed to implementing country-by-country reporting in the UK.

9. Regulations will be made at a later date after the OECD has completed further work on implementation issues, including how the reports will be filed and how countries will exchange the information contained in the reports.

10. If you have any questions about this change, or comments on the legislation, please contact Anne Stark on 03000 585904 (email: anne.b.stark@hmrc.gsi.gov.uk).