

Hyperion Focus 17

OECD Country by Country Reporting with HFM

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Introduction

This presentation is organized in two parts:

- **Walkthrough of the OECD BEPS Action 13 Country-by-Country Reporting requirements and latest guidance (updates published in September)**
- **Review of a setup in HFM supporting the requirements of Country-by-Country Reporting (updated for September OECD guidance), output and reviewers questions**

Disclaimer



This presentation is based on my experience. It does not reflect Ingersoll Rand or Oracle official positions. Any errors are my own. This presentation is not an official OECD or Tax authority guidance and any statements made here should be verified by your Tax department and/or advisors.

This presentation is based on my experience deploying a Country-by-Country HFM solution at Ingersoll Rand, in partnership with our Tax department who also worked with external advisors.

Introduction

Who am I to talk about such things ?

Alex Znyk alexandre_znyk@irco.com

**Sr Manager, Hyperion Systems Administration and Data Management
at Ingersoll Rand, a global diversified manufacturing company**

<https://company.ingersollrand.com/>

**Prior to this, I oversaw global support of the Hyperion Systems, and had
been on the team that performed the initial roll-out of the EPM systems.**

My past experiences include:

- **Consulting (Hyperion integration, Financial Processes Optimization),**
- **I.T. Audit (internal and external),**
- **Financial Planning & Analysis (know thy enemy).**

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OECD Country by Country Reporting with HFM

Country-by-Country Reporting Requirements

Requirements - Introduction

OECD BEPS Action 13 Report on Transfer Pricing Documentation and Country-by-Country Reporting provides a template for the annual reporting by tax jurisdiction of specific information.

The information is made available by the OECD at:

<http://www.oecd.org/tax/beps/country-by-country-reporting.htm>



The screenshot shows the OECD website's navigation and content for the 'Country-by-Country reporting' page. At the top left is the OECD logo with the tagline 'BETTER POLICIES FOR BETTER LIVES'. To the right is a search bar with the text 'Search oecd.org' and a magnifying glass icon. Below the logo is a blue navigation bar with links for 'OECD Home', 'About', 'Countries', 'Topics', and 'Français'. The main content area has a breadcrumb trail: 'OECD Home > Tax > Base erosion and profit shifting > Country-by-Country reporting'. On the left is a vertical menu with categories like 'Aggressive tax planning', 'Base erosion and profit shifting' (highlighted), 'Consumption tax', 'Dispute resolution', 'Exchange of information', 'Fiscal federalism network', 'Global relations in taxation', 'Tax administration', 'Tax and crime', 'Tax policy analysis', 'Tax treaties', and 'Transfer pricing'. The main heading is 'Country-by-Country reporting'. Below it are links for 'Overview', 'CbC Implementation', 'Exchange of CbC Reports', 'Guidance & Handbooks', 'Peer review', 'News', and 'Further information'. A paragraph explains that the BEPS Action Plan adopted in 2013 recognized the need for enhanced transparency. Below this is an 'OVERVIEW' section with a video player titled 'Improving Transparency...' and a list of three points: 1. Multilateral Convention on Administrative Assistance in Tax Matters; 2. Bilateral tax conventions; and 3. Tax Information Exchange Agreements (TIEAs).

Requirements – Main Guidelines

Several published documents are useful to understand the requirements.

We will first take a look at the main publication “OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations”

http://www.oecd-ilibrary.org/taxation/oecd-transfer-pricing-guidelines-for-multinational-enterprises-and-tax-administrations-2017_tpg-2017-en

This is the core publication and provides the requirements for the Transfer Pricing and Country-by-Country reporting.

Requirements – Main Guidelines

The Country-by-Country Reporting is part of the Transfer Pricing Documentation, described in Chapter V, paragraph C:

“

- C.1. Master file: Overview of business, operations, transfer pricing policies. Information to be provided is specified in Annex I to Chapter V**
- C.2. Local file: focuses on information relevant to the transfer pricing analysis related to transactions taking place between a local country affiliate and associated enterprise in different countries and which are material in the context of the local country's tax system. Information to be provided is specified in Annex II to Chapter V**

Requirements – Main Guidelines

- **C.3. Country-by-Country Report:**

5.24 The Country-by-Country Report requires aggregate tax jurisdiction-wide relating to the global allocation of the income, the taxes paid, and certain indicators of the location of economic activity among tax jurisdictions in which the MNE group operates. The report also requires a listing of all the Constituent Entities for which financial information is reported, including the tax jurisdiction of incorporation, where different from the tax jurisdiction of residence, as well as the nature of the main business activities carried out by that Constituent Entity.

5.25 The Country-by-Country Report will be helpful for high-level transfer pricing risk assessment purposes. It may also be used by tax administrations in evaluating other BEPS related risks and where appropriate for economic and statistical analysis. However, the information in the Country-by-Country Report should not be used as a substitute for a detailed transfer pricing analysis of individual transactions and prices based on a full functional analysis and a full comparability analysis. The information in the Country-by-Country Report on its own does not constitute conclusive evidence that transfer prices are or are not appropriate. It should not be used by tax administrations to propose transfer pricing adjustments based on a global formulary apportionment of income.

5.26 Annex III to Chapter V of these Guidelines contains a model template for the Country-by-Country Report together with its accompanying instructions

“

Requirements – Main Guidelines

The CbC Report includes three tables which contain information on the global activities and financial characteristics of the group:

- Table 1 sets out the global allocation by tax jurisdiction of an MNE group's third party revenues, related party revenues, profit before tax, tax paid, tax accrued, stated capital, accumulated earnings, number of employees, and tangible assets.**
- Table 2 lists all constituent entities of the MNE group by tax jurisdiction, together with their main business activities.**
- Table 3 allows for the provision of additional information by the MNE group in the form of free text to facilitate the understanding of the information contained in Tables 1 and 2.**

Requirements – Main Guidelines

Note on source of data (Annex II to Chapter V):

“The Reporting MNE should consistently use the same sources of data from year to year in completing the template.

The Reporting MNE may choose to use data from its consolidation reporting packages, from separate entity statutory financial statements, regulatory financial statements, or internal management accounts.

It is not necessary to reconcile the revenue, profit and tax reporting in the template to the consolidated financial statements.

If statutory financial statements are used as the basis for reporting, all amounts should be translated to the stated functional currency of the Reporting MNE at the average exchange rate for the year stated in the Additional Information section of the template.

Adjustments need not be made, however, for differences in accounting principles applied from tax jurisdiction to tax jurisdiction.

The Reporting MNE should provide a brief description of the sources of data used in preparing the template in the Additional Information section of the template.

If a change is made in the source of data used from year to year, the Reporting MNE should explain the reasons for the change and its consequences in the Additional Information section of the template.”

Requirements – Country-by-Country Template

Table 1 - Specific Instructions highlights:

- **Tax Jurisdiction:**

The country/fiscal authority each entity is subject to. Entities deemed not to be resident in any tax jurisdiction should be added as separate lines.

Where an entity is resident in more than one tax jurisdiction, the applicable tax treaty tie breaker should be applied.

Where no tax treaty exists, the entity should be reported in the tax jurisdiction of the entity's place of effective management.

- **Revenues**

The Revenues in the tax jurisdiction with independent enterprises.

The Revenues in the tax jurisdiction with associated enterprises. And the Total.

Revenues should include revenues from sales of inventory and properties, services, royalties, interest, premiums and any other amounts. Revenues should exclude payments received from other Constituent Entities that are treated as dividends in the payor's tax jurisdiction.

- **Profit (Loss) before Income Tax**

The profit (loss) should include all extraordinary income and expense items.

Requirements – Country-by-Country Template

- **Income Tax Paid (on Cash Basis):**

Taxes paid should include cash taxes paid by the Entity to the residence tax jurisdiction and to all other tax jurisdictions.

Taxes paid should include withholding taxes paid by other entities (associated enterprises and independent enterprises) with respect to payments to the Constituent Entity.

(if company A resident in tax jurisdiction A earns interest in tax jurisdiction B, the tax withheld in tax jurisdiction B should be reported by company A)

- **Income Tax Accrued (Current Year)**

The sum of the accrued current tax expense recorded on taxable profits or losses of the year of reporting. This should not include deferred taxes or provisions for uncertain tax liabilities.

- **Stated Capital**

- **Accumulated Earnings**

- **Number of Employees**

The total number of employees on a full-time equivalent basis. It may be reported as of year-end, on the basis of average employment levels for the year, or on any other basis consistently applied across tax jurisdictions and from year to year.

Independent contractors participating in the ordinary operating activities of the Entity may be reported as employees.

- **Tangible Assets other than Cash and Cash Equivalents**

Requirements – Country-by-Country Template

Table 2. List of all the Constituent Entities of the MNE group included in each aggregation per tax jurisdiction

Name of the MNE group: Fiscal year concerned:															
Tax Jurisdiction	Constituent Entities Resident in the Tax Jurisdiction	Tax Jurisdiction of Organisation or Incorporation if Different from Tax Jurisdiction of Residence	Main Business Activity(ies)												
			Research and Development	Holding or Managing Intellectual Property	Purchasing or Procurement	Manufacturing or Production	Sales, Marketing or Distribution	Administrative, Management or Support Services	Provision of Services to Unrelated Parties	Internal Group Finance	Regulated Financial Services	Insurance	Holding Shares or Other Equity Instruments	Dormant	Other ¹
	1.														
	2.														
	3.														
	1.														
	2.														
	3.														

1. Please specify the nature of the activity of the Constituent Entity in the "Additional Information" section.

Table 3. Additional Information

Name of the MNE group: Fiscal year concerned:
<i>Please include any further brief information or explanation you consider necessary or that would facilitate the understanding of the compulsory information provided in the Country-by-Country Report.</i>

Requirements – Additional Guidance

The second publication we will take a look at is:

“Guidance on the Implementation of Country-by-Country Reporting – BEPS Action 13, OECD, Paris”

<http://www.oecd.org/tax/beps/guidance-on-country-by-country-reporting-beps-action-13.htm>

This publication was updated in September 2017.

It provides clarifications and guidance on specific items that were causing issues.

The main areas covered in this document are:

Issues relating to the definition of items: revenues, related parties, aggregated or consolidated data to be reported per jurisdiction, amount of income tax accrued and income tax paid

Requirements – Additional Guidance

Clarifications on definitions of items reported in CbC Report:

- **Revenues**

- (April 2017) Extraordinary income and gains from investment activities are to be included in Revenues.**

- (September 2017) When financial statements are used as the source, all revenue, gains, income, or other inflows shown in the financial statement [...] should be reported as Revenues in Table 1.**

For example, if the income statement shows sales revenue, net capital gains from sales of assets, unrealized gains, interest received, and extraordinary income, the amount of those items reported in the income statement should be aggregated and reported as Revenues.

Comprehensive income/earnings, revaluations, and/or unrealized gains reflected in net assets and the equity section of the balance sheet should not be reported as Revenues.

The amount of any income items shown on the income statement need not be adjusted from a net amount.

Requirements – Additional Guidance

- **Aggregated data or consolidated data (July 2017)**

The Action 13 Report and the model legislation contemplate that reporting will occur on an aggregate basis at a jurisdictional level.

Accordingly, data should be reported on an aggregated basis, regardless of whether the transactions occurred cross-border or within the jurisdiction, or between related parties or unrelated parties. This guidance will be particularly relevant for the columns on related party revenues and total revenues.

Where the jurisdiction of the Ultimate Parent Entity has a system of taxation for corporate groups which includes consolidated reporting for tax purposes, and the consolidation eliminates intra-group transactions at the level of individual line items, that jurisdiction may allow taxpayers an option to complete the CbC report using consolidated data at the jurisdictional level, as long as consolidated data are reported for each jurisdiction in Table 1 of the CbC report and consolidation is used consistently across the years.

Taxpayers choosing this option should use the following wording in Table 3: "This report uses consolidated data at the jurisdictional level for reporting the data in Table 1", and should specify the columns in Table 1 in which the consolidated data is different than if aggregated data were reported.

Requirements – Additional Guidance

- **Amount of Income Tax Accrued and Income Tax Paid (September 2017)**

4.1 Where the income tax for a fiscal year has been paid in advance (e.g., preliminary tax assessments based on an estimate of the year's corporate income tax), should the amount reported in the "Income Tax Accrued-Current Year" column be linked to the amount reported in the "Income Tax Paid (on Cash Basis)" column?"

Income Tax Accrued-Current Year is the amount of accrued current tax expense recorded on taxable profits or losses irrespective of whether or not the tax has been paid.

Income Tax Paid (on Cash Basis) is the amount of the taxes actually paid during the Reporting Fiscal Year, which should thus include not only advanced payments fulfilling the relevant fiscal year's tax obligation but also payments fulfilling the previous year(s)' tax obligation (e.g. payment of the unpaid balance of corporate income tax accrued in relation to the previous year(s), including payments related to reassessments of previous years), regardless of whether those taxes have been paid under protest. The amount of Income Tax Accrued-Current Year and Income Tax Paid (on Cash Basis) should be reported independently.

4.2 Where taxes have been paid and subsequently refunded, how should the tax refund be reported in Table 1?

In general, a refund of income tax should be reported in Income Tax Paid (on Cash Basis) in the reporting fiscal year in which the refund is received.

An exception to this may be permitted where the refund is treated as revenue of the MNE group under the applicable accounting standard or in the source of data used to complete Table 1.

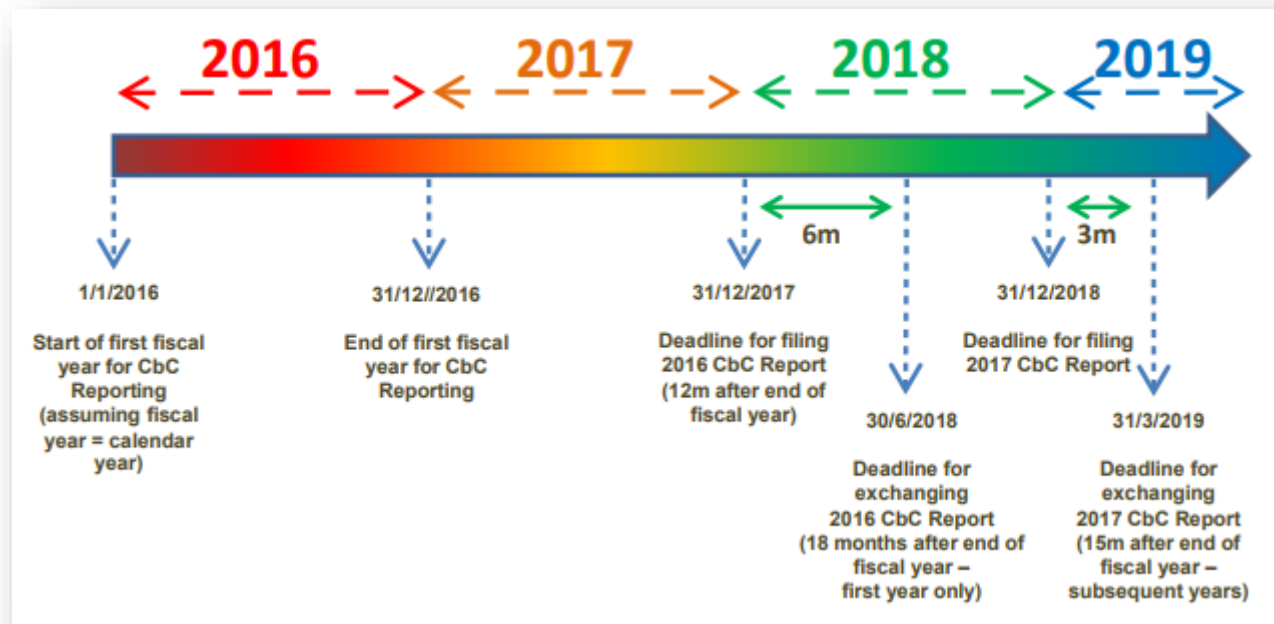
Where this is the case, taxpayers should provide the following statement in Table 3: "Tax refunds are reported in Revenues and not in Income Tax Paid (on Cash Basis)".

Requirements – Additional Guidance

Finally, OECD published in September 2017 the “Country-by-Country Reporting: Handbook on Effective Implementation”

<http://www.oecd.org/tax/beps/country-by-country-reporting-handbook-on-effective-implementation.htm>

This is mainly directed to Tax authorities that will receive and process the Reporting, but includes some useful information such as an overview of CbC reporting, as well as the timeline:



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OECD Country by Country Reporting with HFM

Implementation of CbC Reporting in HFM

Implementation of CbCR in HFM

Our approach for the implementation of CbCR has been the following:

- **Identify the CbCR Requirements**
- **Establish the best source of information**
- **Design the most efficient solution**

Implementation of CbCR in HFM

Identifying the CbCR Requirements:

At the time of our analysis, performed in 2016, the more recent guidance was not available.

In particular, we selected a design that allowed to provide consolidated data, where only aggregated is required.

We reviewed the documentation available at the time and consulted our external advisors.

The first part of this presentation is the refreshed outcome of this review.

Implementation of CbCR in HFM

Establishing the best source of information:

HFM was first considered because it is the consolidation system, providing the group financial information, as well as a stable source of information.

It contains financial information of all the group's entities in a common format and has advanced reporting capabilities.

Additional benefits are:

- Consistency of information across all entities**
- The system is already audited and in scope of Sarbanes-Oxley processes**
- The system is known to our external reviewers and advisors**

Implementation of CbCR in HFM

Designing the most efficient solution:

To fulfill the requirements, we performed a review of Ingersoll Rand entities and classified them by Tax Jurisdiction.

Once the list was established, we designed a CbC entity hierarchy.

While not required, we added an additional layer of region grouping for additional reporting and drill-down capabilities.

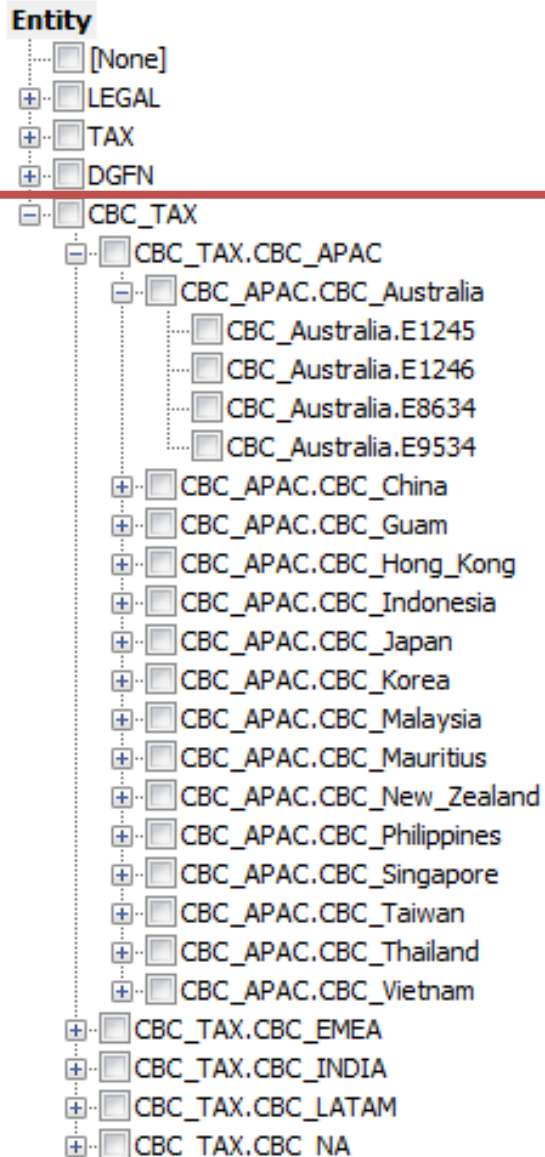
Implementation of CbCR in HFM

The hierarchy is organized into regions.

The tax jurisdictions are placed under each region, designated by their country name.

The entities are positioned under each tax jurisdiction according to the CbC requirements.

Because of this, this hierarchy is different and cannot be derived from any existing hierarchies (Legal, Tax, Debt Guarantor)



Implementation of CbCR in HFM

The report was then taken through two review workstreams:

- **An internal review through our Tax and Finance organizations to provide confidence and ensure validation by internal stakeholders.**
This was important in particular in light of the sharing of CbC reporting between Tax authorities.
- **A review with our external advisors.**
This included a review of the accounts used to ensure compliance with CbC definitions and requirements.
In some cases, CbC reporting requirements were different from our standard Chart of Accounts presentation.

Implementation of CbCR in HFM

Key takeaways from review with external advisors:

- **During initial reviews, external advisors developed an understanding of the solution and reviewed against general practices and specifics of Tax filings.**
- **Afterwards, the focus was on ensuring that the report is aligned with CbC Reporting requirements, particularly when additional guidance was published.**

Some cases that required particular attention:

- **Total Tangible Assets**
- **Stated Capital calculation**
- **Profit before Tax excluding Discontinued Operations**
- **With CbC Reporting guidance on providing aggregated financials, we stepped away from using Tax Jurisdiction consolidated numbers on Intercompany Accounts.**

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Thank you

