



BEPS reporting and compliance considerations

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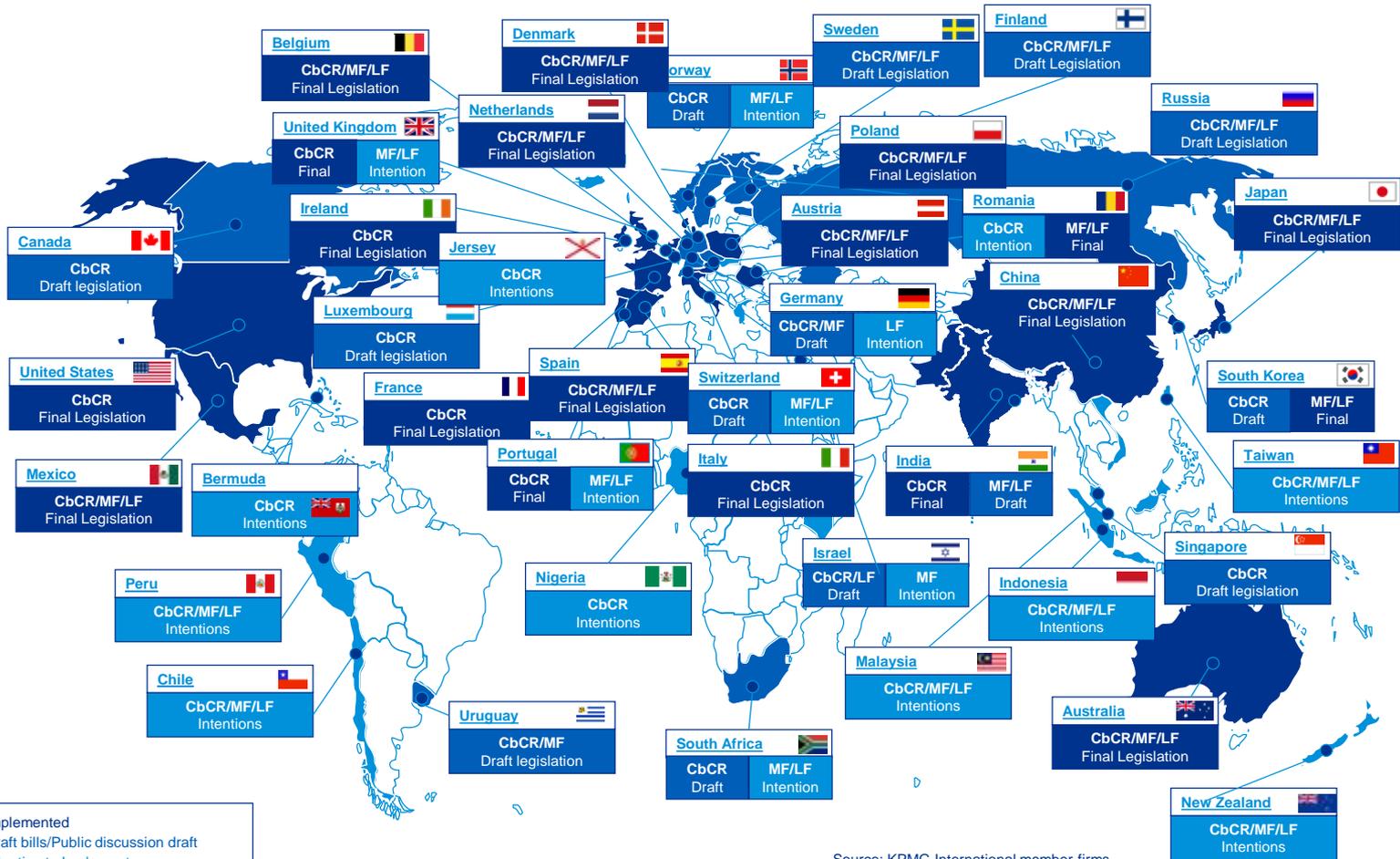


Presenters

BEPS reporting and compliance considerations

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Country implementation summary



Source: KPMG International member firms

BEPS reporting and compliance considerations

- Country by Country Reporting
 - Do we have to comply? What if we don't?
 - Penalties
 - Audit risk
 - Where/when do we need to file?
 - What about public disclosure?
- Master File
 - When?
 - How much information should we include?
 - “A” versus “C” report
 - Value chain analysis: yes or no?
 - What about countries that don't have the same \$\$ threshold?

BEPS reporting and compliance considerations (continued)

— Local Files

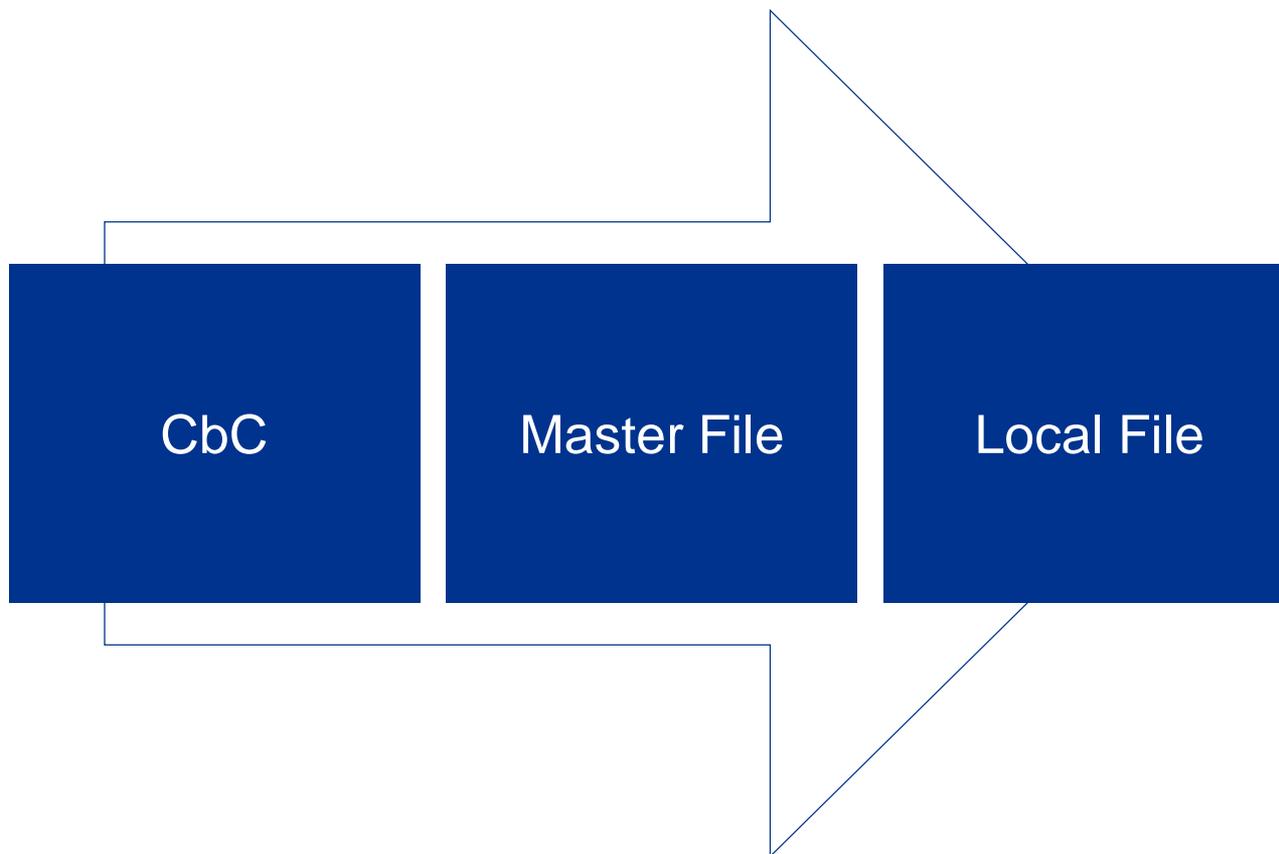
- Centralized versus decentralized approach
- When?
 - Should we prepare for countries that haven't yet implemented LF requirements?
- How much information?
- What about China?

Consider a more strategic approach



Timing What we see

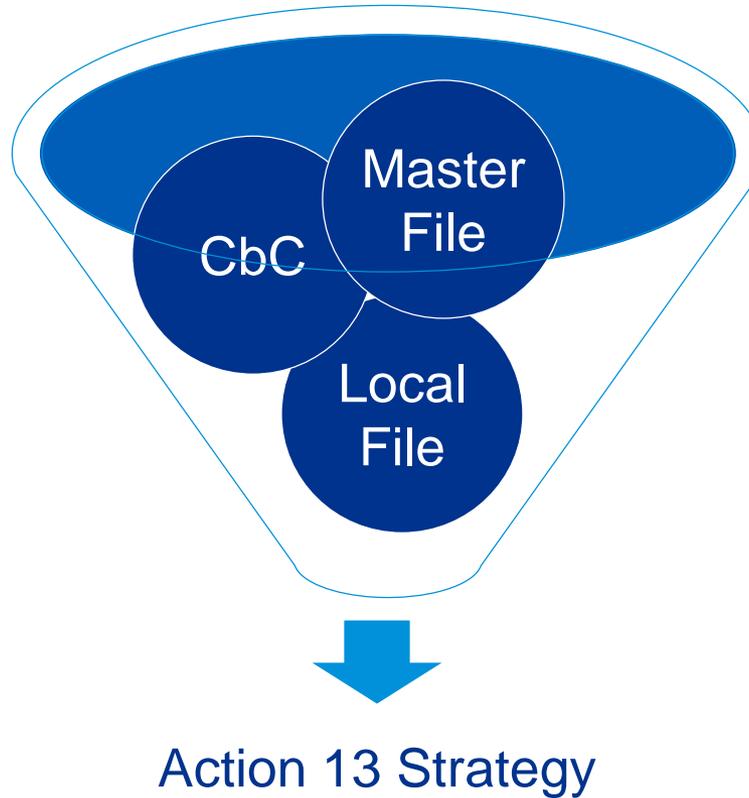
Linear approach



Timing

What we'd like to see

Integrated approach





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Accounting and Data Challenges and Solutions

Typical challenges 'at the coal face'

Companies initially viewed CbCR as a purely compliance burden, but this has quickly evolved into a broader evaluation of system capability for tax and legal entity reporting



Challenges



Themes to investigate

Entity level data

Significant effort required to map management reporting to legal entity activity

- Ledger configuration
- Alignment legal to tax.
- Offline calculations and reallocations.

Statutory accounting processes and other challenges

- Timing mismatch of local statutory financial statements as compared to required CbCR deadlines
- Current statutory processes not systemized/centralized
- Ledger to entity/branch uniqueness

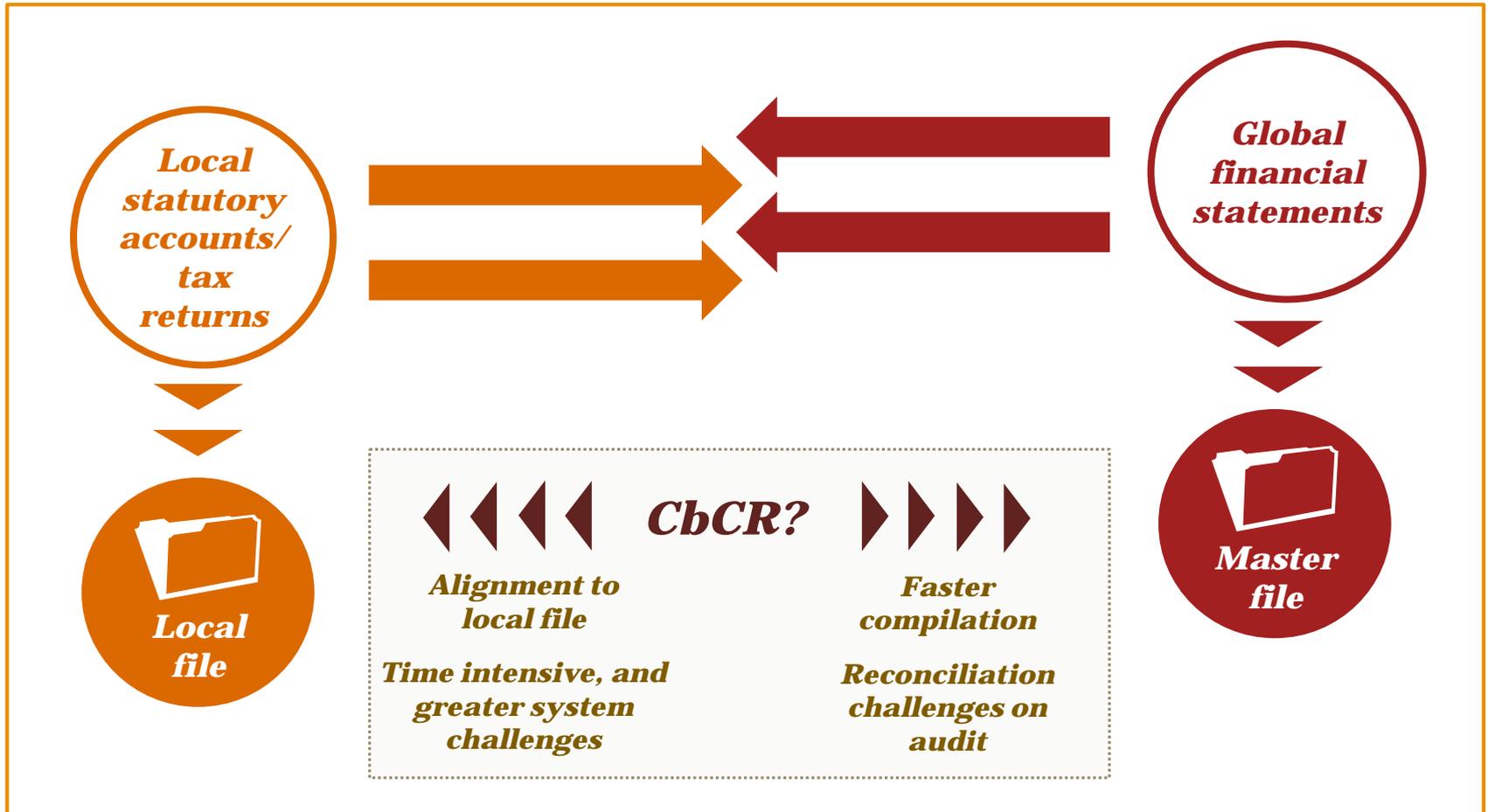
Local variation for intercompany transactions

- Where I/C transactions recorded e.g. retained earnings (or similar)
- Elimination of activity is subject to significant variability

Complex data and technology landscape

- Multiple disparate local and aggregated ledgers
- Decentralized location for collection, manipulation and management of general ledger and transactional data
- Process related to periodic review and control of legal entity structure
- Workflow needed to integrate multiple data sources.

Fundamental challenges – 1. tensions between global and local reporting



Fundamental challenges – 2. additional accounting tasks

Aggregated approach to country results build up:

- Addition of P&Ls/balance sheets without elimination
- Deconsolidation/gross-up of financial/operational/taxation results?
- Stripping out 'negative cost' in cross allocation processes to identify related party revenues



Anticipated reconciliations and audit trail

- Ability to reconcile the CbCR to:
 - local statutory statements
 - worldwide audited statements
 - legal entity books
 - local tax returns
 - transfer pricing documentation
 - local international reporting (5471)
- Ability to provide audit trails:
 - Auditable trail back to source data
 - Record retention of the data over multiple years for consistency
 - Versioning control



Fundamental challenges – 3. Culture and IT landscape

Data Management to prepare for the end to end process of CbC reporting may be a challenge for numerous MNCs. Many companies we talk to are initially thinking they can get the data from their ERP and that may or may not be true.

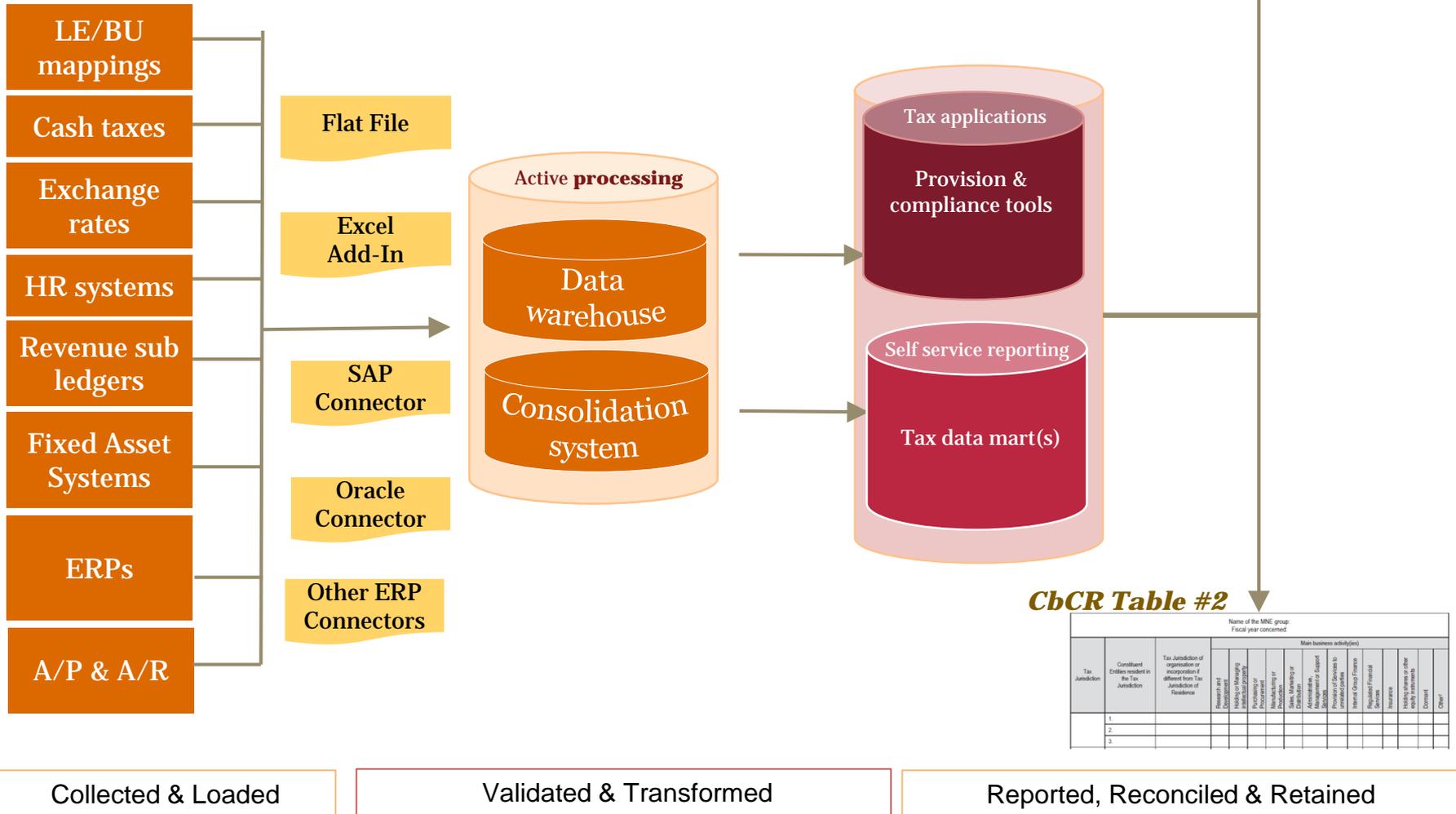


Business culture, resource availability, and timing of data

Core ERP and Business Intelligence systems capability/configuration to handle data granularity

Supporting processes in the controllership function are critical

High Level Data Flow for CbC Reporting



CbCR Table #1

Name of the MNE group Fiscal year concerned										
Tax Jurisdiction	Revenues			Profit (Loss) Before Income Tax	Income Tax Paid (on cash basis)	Income Tax Accrued - Current Year	Stated capital	Accumulated earnings	Number of Employees	Transferable Assets other than Cash and Cash Equivalents
	Unrelated Party	Related Party	Total							

CbCR Table #2

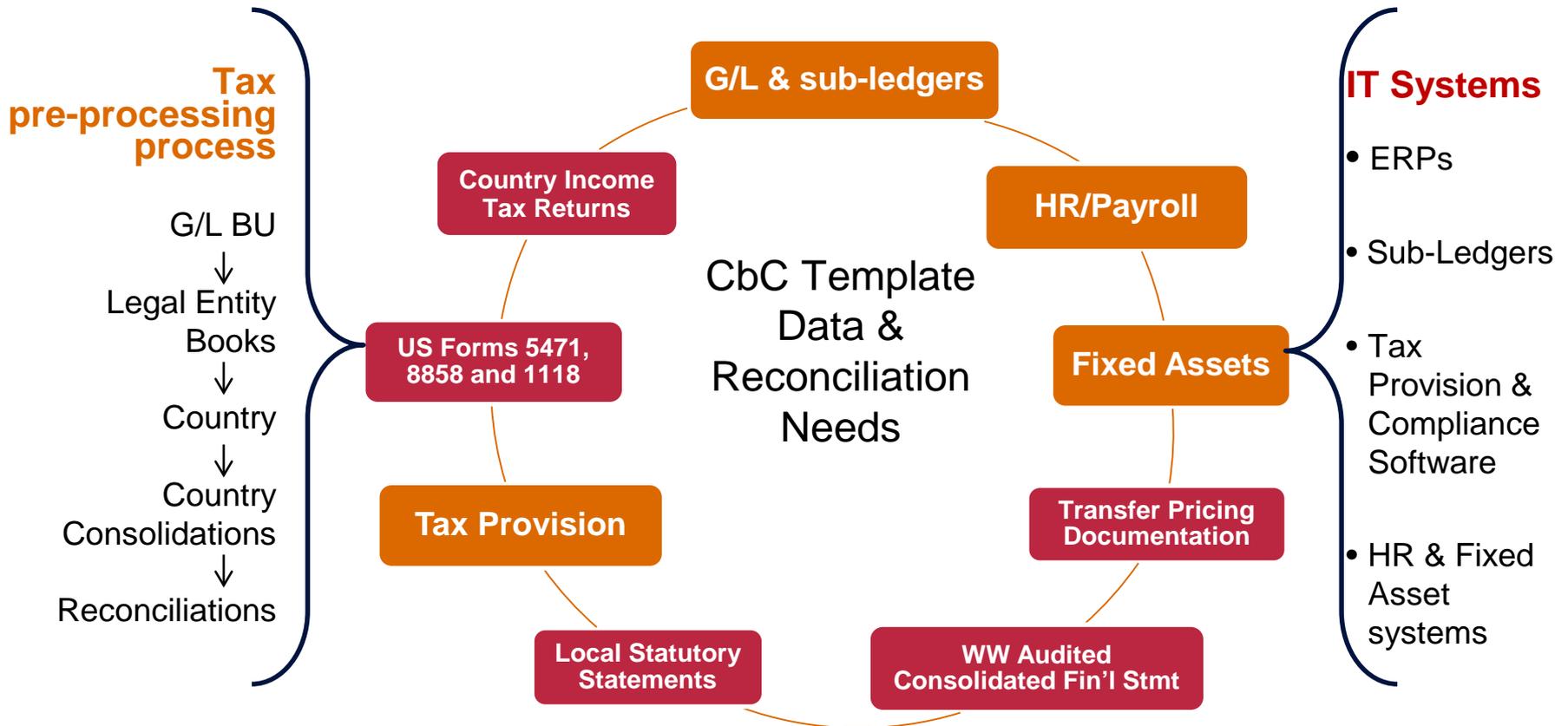
Name of the MNE group Fiscal year concerned														
Tax Jurisdiction	Constituent Entities resident in the Tax Jurisdiction	Tax Jurisdiction of organization or incorporation if different from Tax Jurisdiction of Residence	Main business activity(ies)											
			Research and Development	Holding or Managing intellectual property	Manufacturing or Production	Sales, Marketing or Distribution	Support, Maintenance or Support	Services	Internal Group Finance	Regulated Financial Services	Insurance	Holding shares or other equity investments	Other	
1														
2														
3														

Collected & Loaded

Validated & Transformed

Reported, Reconciled & Retained

Data & Systems for Reporting & Reconciliations



Further considerations

Data in **multiple source systems** with different formats and different meanings.

Data and Systems

- **Degree of centralization** of ERP and Business Intelligence systems
- **Degree of standardization** in the charts of accounts
- **Stable platform** of centralized and standardized system and processes
- **GAAP rules** of the local companies can be easily converted to parent company GAAP rules

Data errors, identified too late in the process, increase risk.

Data Errors

- **Early Detection:** find errors early before final reports and filings are completed
- **Account Balances:** Rules can highlight accounts that don't balance
- **Easily Determine Root Cause:** Drill down to lowest level of detail to determine source of problem accurate data translations

Data translation (from Finance view to Tax view) is complex and error prone if done manually

Accurate data translations

- **Business Unit and Cost Center** financial data aggregated and consolidated
- **Financial details translated** as necessary to Parent MNE reporting currency, by legal entity and by country
- **HR and Fixed Asset data** aggregated by Country
- **Business Activity data** by legal entity
- In a repeatable, reliable, and accurate process

Key Questions



ERP and Business intelligence landscape

- Single instance globally or fragmented?
- Stable platform, or 'in transition' (ERP rollout or acquisitive behavior)
- System optimized for legal entity reporting; reconciliation capability local GAAP to U.S?
- Standardized chart of accounts or ERP templates?
- Degree of BI centralization, maturity of reporting, and business support available
- Difference between management and legal entity accounting...and reconciliation capability

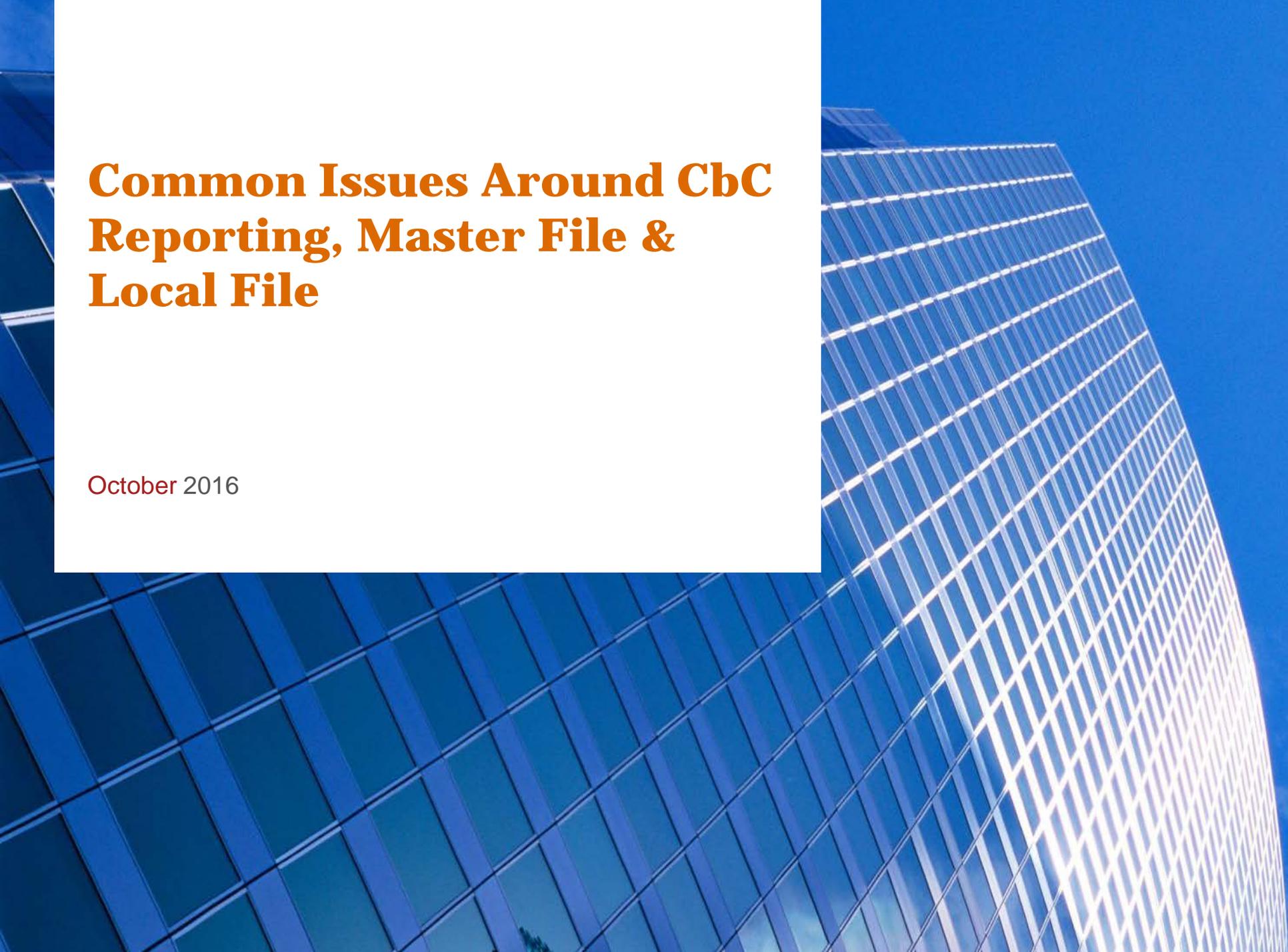
Current tax processes

- Degree of centralization and cultural values
- Maturity and stability level of systems?
- Existing processes to leverage (5471s, provision, management allocations, FTC, tax cashflow forecasting)
- Plan for data mapping & reconciliations
- Plan for workflow approach (build v buy, insource v outsource)
- Does the complexity of your corporate structure require that you run several trials?
- Record Retention

Learnings & Best Practice Recommendations

It is critical to create cross-organization momentum

- Identify drivers in other functions that align with the CbC agenda (e.g. FP&A and insights into fully loaded profitability/customer analysis)
- Leverage organizational investments in IT wherever possible
- Focus on time/resource impacts for the finance organization to support analysis, as a driver to support the investment in technology
- Engage with shared services/GBS/GFS type functions and start the 'service level agreement' discussion early
- Present the issues as related to transparency and intercompany accounting/reporting as opposed to 'tax compliance'
- Elevate the reputation and confidentiality risk issues associated with the granular reporting of profitability data
- Establish a task force/sponsorship group across tax, finance, and IT
- Maximize the use of technology for data collection, validation, transformation, and reconciliation to ensure overall transfer pricing story is properly told and to provide an audit trail.
- Start preparing now



Common Issues Around CbC Reporting, Master File & Local File

October 2016

Introduction

- In this presentation, we will discuss the common issues companies experience when navigating Country by Country (“CbC”) Reporting, Master File (“MF”) and Local File (“LF”) filing requirements.
- The common issues can be classified in the following categories:
 - CbC Reporting Interpretation
 - Technical Issues
 - Gray areas in the CbC reporting that are addressed in MF/LF
 - Gray areas in MF/LF
- The following slides showcase a list of sample issues Clients has encountered while preparing for the CbC, MF and LF filing.

CbC Reporting Interpretation Issues

- **Interpretation of “Total accrued tax expense” in CbC Reporting**
 - Should total accrued tax expense be net of foreign tax credits for US tax purposes?
 - Should deferred taxes and provisions of uncertain tax liabilities be excluded from total accrued tax expense?
- **Treatment of stateless income in CBC reporting**
 - How should income from the various types of entities such as the following be treated for purposes of CbC reporting?
 - Reverse Hybrid
 - Cayman Company
 - Partnership
 - Branch registered in Ireland with no income tax
- **Treatment of related party revenues for CbC and MF purposes**
 - Should revenue from entities, where Clients holds less than 50% of its ownership, be included in the US CbC reporting.
- **Should dividend income be excluded from profit/loss before tax?**
 - There were no clear guidance on whether dividend income should be included in profit/loss before tax in the CbC reporting.

Technical Issues

- **Which jurisdictions allow for surrogate parent filing**
 - To date, the U.S. income tax treaty and tax information exchange agreement (“TIEA”) network cover approximately 95+ countries. However prior to automatic exchanging information, the IRS must enter into a competent authority (“CA”) arrangement specifying the rules under which such exchange will take place. For jurisdictions within the US treaty and TIEA network that the US does not enter into CA arrangement with for the exchange of CbC info, they may require secondary filing of the CbC report under local rules similar to the OECD model legislation.
 - Currently there are concerns around exchange of information with/from Chile, China, Singapore, Switzerland and Taiwan, where Clients have significant businesses.
 - China for example, is an “in network” country but since it does not have a BDI automatic exchange relationship with the US under FATCA, Clients China may be required to meet local filing requirements in China.
 - To avoid additional local filing requirements, Clients could utilize a parent that have passed legislation or otherwise indicated that they are willing to serve as a surrogate.
 - May need to conduct analysis to compare between US treaty network and the networks of the following potential surrogate countries:
 - Mexico
 - Japan
 - Australia
 - Canada
 - UK
 - Netherlands

Gray areas in the CbC reporting which has to be outlined in the master file/local file.

- **Should LF be provided on an entity by entity basis or aggregated for the entire Clients business operation in that jurisdiction?**
 - These are done through on a country by country basis to understand local filing requirements for respective jurisdictions.
- **Reporting contract labor in CbC and MF/LF**
 - US CBC regulation §1.6038-4(d)(3)(iii) writes that “independent contractors that participate in the ordinary operating activities of a constituent entity may be considered employees of such constituent entity.” Therefore do companies have the flexibility or exclude contract labors in the reporting of total employees?
- **Main Business Activity: Should companies check one or multiple boxes in CbC Reporting form if the entity is involved in multiple business lines?**
 - Do business lines reported in the CbC Reporting form need to agree with the descriptions in the MF.

Gray areas in MF/LF

- **Clarification on MF requirements and presentation of the legal ownership chart in the MF**
 - Should the organizational chart include holding and dormant entities? Should the entities included in the organizational chart reconcile with entities listed in the CbC reporting?
- **Local file reporting requirements for holding companies and dormant entities**
 - What are the minimum LF reporting requirements for holding and dormant companies that perform little to no functions..
- **Clarification on MF requirements for top 5 products/service offerings**
 - What is the definition of product line? Can it be interpreted that Client's top 5 business segments are the top 5 products/ service offerings?
- **Should intangibles be reported for business segments that account for less than 5% of Client's overall business?**
 - Should constituent entities such as business unit's intangibles be reported in the MF even though these entities account for less than 5% of Client's overall business?