Tax Transparency & Public Country-by-Country Reporting

A study of the largest companies headquartered in Europe

www.ebtforum.org

April 2022

A publication prepared for the
European Business Tax Forum by

EBTF European Business Tax Forum

pwc

About the EBTF

The European Business Tax Forum ("EBTF") is the leading body of European businesses dedicated to raising the standard of the public debate around the tax position, tax behaviour and tax contribution to the society by large companies. The EBTF welcomes the public tax debate and aims at enabling a more balanced dialogue through undertaking research and publishing reports that provide objective (tax) data and information and discussing these publications with relevant stakeholders. Member companies are based in the European Union ("EU"), the European Free Trade Association ("EFTA") and the United Kingdom ("UK") and share a common belief in responsible tax practices and tax transparency. To find out more, please visit us at www.ebtforum.org.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 156 countries with over 295,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

Foreword

I am pleased to introduce you to the EBTF's latest study, which for the first time is dedicated exclusively to Country-by-Country Reporting ("CbCR") data.

There has long been a debate in tax transparency circles as to the most effective metric for viewing and understanding companies' tax information. Arguably, the breadth of data we have available these days enables a more holistic view of a multinational enterprise ("MNE") and its tax profile to be formed by looking at the overall Total Tax Contribution ("TTC"). CbCR information is useful; it provides a clear and easily understood, yet limited view of a MNEs headline global corporate income tax ("CIT") contribution.

The focus on CbCR data from certain quarters, is to an extent understandable. For many years the media and government responses have focused around 'tax avoidance' on CIT. Myriad anti-avoidance rules have been implemented globally, tax administration audits focus on measures to increase CIT and the prevailing narrative in the wider public has largely focused on a perception of MNEs as being in a race to the bottom seeking out elaborate ways to move taxable profits to lower tax jurisdictions.

Indeed, the Organisation for Economic Co-operation and Development's ("OECD") entire Base Erosion and Profit Shifting ("BEPS") 2.0 project, which now primarily seeks to introduce a global minimum 15% tax rate, appears focused on this race to the bottom perception. As most readers will know, BEPS2.0 was originally conceived as a global measure (Pillar One) to enable tax authorities to capture a fair share of global tax revenues from the tech giants whose business models created very little taxable presence in customer jurisdictions. Rightly or wrongly, however, the focus within BEPS2.0 has now shifted to the more overtly political Pillar Two 'anti-tax-haven' measure of introducing a global minimum tax rate of 15% for all MNEs wherever they operate, with serious doubt now cast on the ability to get Pillar One implemented at all.

BEPS2.0 is a well-intentioned change to the tax landscape. However, the focus on CIT does mean that the initiative reinforces the negative MNE/tax avoidance narrative. Whilst BEPS2.0 has put in place what appear to be good safeguards e.g., to ensure that deferred tax, which would arise during a loss-making period for instance, is reflected in looking at the minimum tax of 15%, it is unlikely that all commentators will be sufficiently tax and accounting aware to understand such nuances and may lead to questions on the overall level of additional tax BEPS2.0 will generate. Unfortunately, a focus on CIT alone such as with public CbCR ("pCbCR"), can lead to overly simplistic conclusions being drawn in some quarters which do not take into account the volatility of certain businesses and the tax rules for jurisdictions within which they operate. For instance, anecdotal evidence of MNEs being labelled tax avoiders by the most extreme tax campaigners exist, with situations having arisen where genuine commercial losses and corresponding low CIT payments for a year are incorrectly and unfairly labelled as tax avoidance.

During the preparation of the EBTF's 2020 TTC report, it was established that it was possible to readily obtain some additional information from the participating companies providing their data for both CbCR and TTC for the first time. Following the collection of that data and the further guidance issued by the OECD and EU on the new BEPS 2.0 framework, we believe that now is a pertinent time to share the further insights with you.

We have used the breadth of CbCR data available from our study participants objectively. The current geopolitical and economic environment shows the volatility in the wider world. That volatility is also reflected in businesses and the jurisdictions in which they operate. Tax revenues, and particular CIT revenues, are impacted down the line in a less dramatic but still important way. Tax revenues are the lifeblood of society, funding government expenditure and forming a contract between taxpayers and their countries. Furthermore, Pillar Two is coming and whilst serious doubts remain about whether it will raise the revenues and in the appropriate places that it intends to do, it will certainly increase the administrative and compliance burden for tax administrations; but also, for MNEs substantially at a time when tax functions are generally under significant pressure. Increasingly aggressive tax audits, digitalisation of tax filing and invoicing and enhanced tax transparency requirements all increase workload in a time of wider finance transformation.

It is in that context that the production of meaningful and accurate data and interpretation of that information in an objective and informed way is critical for the diverse array of stakeholders, who have an interest in a successfully functioning efficient global tax system. I hope that you find the following report both insightful and thought provoking as the tax world continues to grapple with the best way of reflecting MNEs' substantial contribution to society.

Michael Ludlow
Chair of the EBTF

Contents

Executive summary

1

Country-by-Country Reporting focuses only on corporate income taxes – and companies pay many other business taxes

CbCR only covers CIT paid on a cash and accruals basis. CbCR data without the necessary context can be misleading and cause misunderstandings. Given the complexity of tax rates and systems, the objectives of pCbCR, namely to "promote a better-informed public debate regarding, in particular, the level of tax compliance of certain multinational undertakings active in the Union and the impact of tax compliance on the real economy (...) and thus contribute to regaining the trust of citizens of the Union in the fairness of national tax systems",[1] would likely be difficult to be met without further narrative and understanding of the limitations of the data. For more information, please refer to sections two and three of this report.

2

Operations in jurisdictions considered non-cooperative by Europe

A small proportion of the total operations of some of the largest companies headquartered in Europe are in the EU list of non-cooperative jurisdictions. Only 0.8% of total profits, 0.4% of total revenues, and 0.3% of the workforce are in those jurisdictions. For more information, please refer to section four of this report.

3

The combination of public Country-by-Country Reporting, Pillar Two and the Global Anti-Base Erosion Effective Tax Rate Model Rules bring complexity in (public) reporting and increase compliance costs

Given their divergence from current applicable tax and accounting rules, the Global Anti-Base Erosion ("GloBE") Model Rules are expected to bring complexity in tax reporting and increase compliance costs for both companies and tax administrations around the world. Leveraging on existing tax calculations, such as CbCR or using the latter as an Effective Tax Rate ("ETR") safe harbour could offer a more simple, pragmatic and proportionate alternative, provided it does not lead to the alteration of the CbCR template. In addition, the co-existence of pCbCR and the proposed publication of the GloBE ETRs within the EU underscores the need for appropriate narrative accompanying public disclosures. TTC can play an important role in this respect, complimenting the ETR data in a more comprehensive and broadly understandable way. For more information, please refer to section five of this report.

1 European Union, Directive of the European Parliament and of the Council Amending Directive 2013/34/EU as regards disclosure of Income Tax information by certain undertakings and branches, available at https://data.consilium.europa.eu/doc/document/PE-74-2021-INIT/en/pdf.

Understanding key tax ratios

Different ratios can be obtained from the TTC and CbCR data. The summary chart below provides the definition, formula and purpose of the key tax ratios considered in this report.

	Current Tax Rate (CuTR)	Cash Tax Rate (CTR)	Total Tax Rate (TTR)	GloBE Effective Tax Rate (GloBE ETR)
Definition	CIT accrued as a proportion of profits before income taxes	CIT on a cash basis as a proportion of profits before income taxes	Total taxes borne (i.e., CIT and all other business taxes) as a proportion of profits before all business taxes	Adjusted covered taxes as a proportion of adjusted net GloBE income
Formula	CuTR = CIT (accrual basis) / Profits before income taxes	CTR = CIT (cash basis) / Profits before income taxes	TTR = Total taxes borne / Profits before all taxes borne	GloBE ETR = Adjusted covered tax / Adjusted net GloBE income
Source	OECD Table 1 CbCR filings	OECD Table 1 CbCR filings	Sustainability reporting, internal data collection schedules, financial statements	Data is not readily available for producing this ratio. New data collection processes must be implemented, in addition to consolidated financial statements, internal controls and tax accounting schedules
Purpose	Demonstrate the percentage of profits which are accrued in the form of CIT	Demonstrate the percentage of profits which are paid in cash in the form of CIT	Demonstrate the percentage of profits which are borne in the form of taxes, including CIT and other business taxes (e.g. product, property, planet and people taxes)	Under Pillar Two/GloBE (more detail in section one of the report), a jurisdictional-level minimum tax system with a minimum ETR of 15% was agreed by more than 130 countries and the GloBE ETR is a calculation step of the minimum tax

Section 01

Why is this report looking at public Country-by-Country Reporting and the Global Anti-Base Erosion initiative?

From a chapter in 2020 to a stand-alone report in 2021-2022

In 2020, the EBTF commissioned PwC to produce the second edition of the TTC: a study of the largest companies headquartered in Europe.[2] In anticipation of the increase of public tax disclosure requirements, the final report also contained a chapter analysing the CbCR data of 11 companies that were either already publicly disclosed or were made available to the EBTF. The chapter examined the data to draw observations about the CbCR methodology, highlighting its inherent strengths and potential pitfalls and considering what can usefully be gleaned from aggregate data. This analysis was produced with the aim to potentially aid a constructive and objective discussion amongst the various stakeholders on how tax transparency can be achieved in an effective, meaningful, and balanced way.

Since the publication of the 2020 TTC study, and the CbCR chapter contained therein, the international and European landscape on public tax disclosures and substantive tax rules has fundamentally shifted. The EU has introduced pCbCR; the Inclusive Framework ("IF") has agreed on a minimum tax of 15% on the basis of the GloBE initiative led by the OECD;[3] and the European Commission ("EC") has announced the possibility of requiring the public disclosure of the GloBE ETRs calculated under the GloBE Model Rules.[4]

Given these recent developments, it was decided that their far-reaching implications could support a separate publication of a stand-alone report on CbCR data, following the successful launch of the third edition of the TTC study on 17 December 2021.[5] The objectives of the report remain essentially the same and are aligned with the mission statement of the EBTF: to contribute to the public tax debate by providing tax data which would be otherwise unavailable, providing insights and analyses to enable a balanced and holistic dialogue with all the relevant stakeholders.

In parallel to the TTC study, the EBTF invited the study participants to provide the Table 1 of their OECD CbCR filings (template shown in Appendix E) for analysis, obtaining permission to use the confidential data of 15 MNEs, along with data from 5 companies which have made their data publicly available. These 20 MNEs (hereinafter referred to as participating companies) represented 20.0% of CIT and 32.8% of the TTC of all companies participating in the third edition of the TTC study, enabling meaningful conclusions.

As with the TTC information, data sets were provided to PwC on a confidential basis with no explanatory narrative. PwC was requested to share the results in aggregate format so the name of participant companies cannot be ascertained. PwC used a bespoke data analytics software to consolidate and interrogate the data. Where company data is quoted, this is based on publicly available data.

The TTC and CbCR data in this report refer, unless otherwise stated, to the periods ending to 31 December 2020.

2 EBTF, Total Tax Contribution: a study of the largest companies headquartered in Europe (second edition), available at https://ebtforum.org/wp-content/uploads/2020/12/Total-tax-contribution-A-study-of-the-largest-companies-in-the-EU-and-EFTA-2020-Report-2.pdf.

3 OECD, Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy, available at https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf.

4 For more information, please see the European Commission's website at https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_6967.

5 EBTF, Total Tax Contribution: a study of the largest companies headquartered in Europe (third edition), available at https://ebtforum.org/wp-content/uploads/2021/12/Total-Tax-Contribution-A-study-of-the-largest-companies-in-Europe-2021-Report.pdf.

Public Country-by-Country Reporting

Recent developments

Following the political agreement reached with the European Council in June 2021 and the updated text that was agreed in September 2021,[6] the European Parliament voted on 11 November 2021 in favour of introducing pCbCR requirements. After a final debate between Members of the European Parliament ("MEPs") in the European Parliament plenary session, a majority of MEPs voted to amend the EU Accounting Directive 2013/34/EU ("Amended Accounting Directive"), which deals with financial reporting of certain types of undertakings.

The agreed changes to the Amended Accounting Directive will require MNEs or standalone undertakings with a total consolidated revenue of at least €750m, over a period of two consecutive financial years, whether headquartered within the EU or not, to disclose publicly the CIT they pay in each EU Member State and in each of the countries that are either on the EU list of non-cooperative jurisdictions for tax purposes, or listed for two consecutive years on the list of jurisdictions that do not yet comply with all international tax standards but have committed to reform.

The new wording of the Amended Accounting Directive entered into force 20 days after publication in the Official Journal, which took place on 1 December 2021. EU Member States have 18 months to transpose the Amended Accounting Directive into domestic legislation. It is possible that Member States could transpose it in a shorter time, so that the Amended Accounting Directive could become effective earlier. If transposition does not occur ahead of the mandated timeline, companies MNEs can expect that the additional disclosure requirements will become applicable in mid-2024, that they will apply to accounting periods beginning after that date, and that disclosure will first be required in the latter part of 2025 (or, more likely, 2026 for those with a 31 December accounting year-end).

It is worth noting that there is a safeguard clause which, if included in national law, will allow companies to defer the disclosure of certain information for a limited number of years, provided they clearly disclose the deferral along with a reasoned explanation in the report. This ability to allow companies to defer disclosure is not required under the Amended Accounting Directive, and will, therefore, remain at the discretion of the Member State as they can choose whether to allow this safeguard when transposing the Amended Accounting Directive. The deferral may apply to one or more specific items. Member States could potentially limit what can be deferred. A deferral would only be possible where public disclosure of the required information could seriously prejudice an undertaking's commercial position, as competitors could draw significant conclusions about its current activities.

6 Approved wording available at https://data.consilium.europa.eu/doc/document/ST-9722-2021-REV-1/en/pdf.

Looking ahead

CbCR – and consequently also pCbCR – focuses on CIT, which is only one of the taxes borne by MNEs. In OECD countries, CIT is a relatively small percentage of total government receipts, making up, on average, 10% of total tax receipts.[7] Notwithstanding, CIT remains the most examined and most debated tax that companies bear.

The recent vote in favour of pCbCR demonstrates how calls for greater transparency are focused on CIT, which is understandable given its high profile. A review of tax receipts across the economic cycle and particularly during recessions and financial crises shows that CIT is, as one would expect, a markedly volatile tax. Whilst receipts of all taxes fall during a downturn, CIT is disproportionately affected.

Over the past decade, many European governments have sought to maximise receipts from other more stable sources of revenue and CIT has become proportionally a smaller part of tax receipts. In the UK, for example, an analysis over the 17 years of the largest listed companies shows a significant change in the profile of taxes borne. The contribution made to total taxes borne by taxes other than CIT is significantly greater in 2021, when compared with 2005.

This changing profile suggests that tax revenues contributed by this group of companies have become materially less dependent on CIT. There has been a consistent trend away from a tax based on profits to taxes based on people, production and property.[8]

The ongoing COVID-19 pandemic also has shown how volatile CIT revenues can be in times of economic turbulence. In 2020, there was a significant reduction in fuel consumption as a result of various lockdowns and restrictions on movement, which caused a decline of profits within the oil and gas sector, leading to a 3.2% drop in CIT receipts.[9]

People taxes are generally a more stable source of government revenue. The 2020 global TTC data of the largest MNEs headquartered in Europe show that employment taxes account for a high proportion of the overall TTC in developed countries.[10]

The reliability of employment taxes as a long-term source of government revenue may be threatened by the continued development of automation and artificial intelligence. As the number of employees needed in certain industries falls, employment taxes and thereby national tax revenues may experience a corresponding decrease assuming that these jobs would not be replaced with others.

Finally, with the challenges brought by climate change and the transition to net zero emissions, governments could turn to environmental and consumption taxes to increase total receipts.

The timing of the vote in favour of pCbCR is important given that there are increased expectations by wider groups of stakeholders of companies to meet strong environmental, social and governance (“ESG”) values. Within that context, some MNEs have already started voluntarily publishing details of their tax affairs as shown by the CbCR disclosures referenced in the second edition of the EBTF’s TTC study[11] as well as in this report.

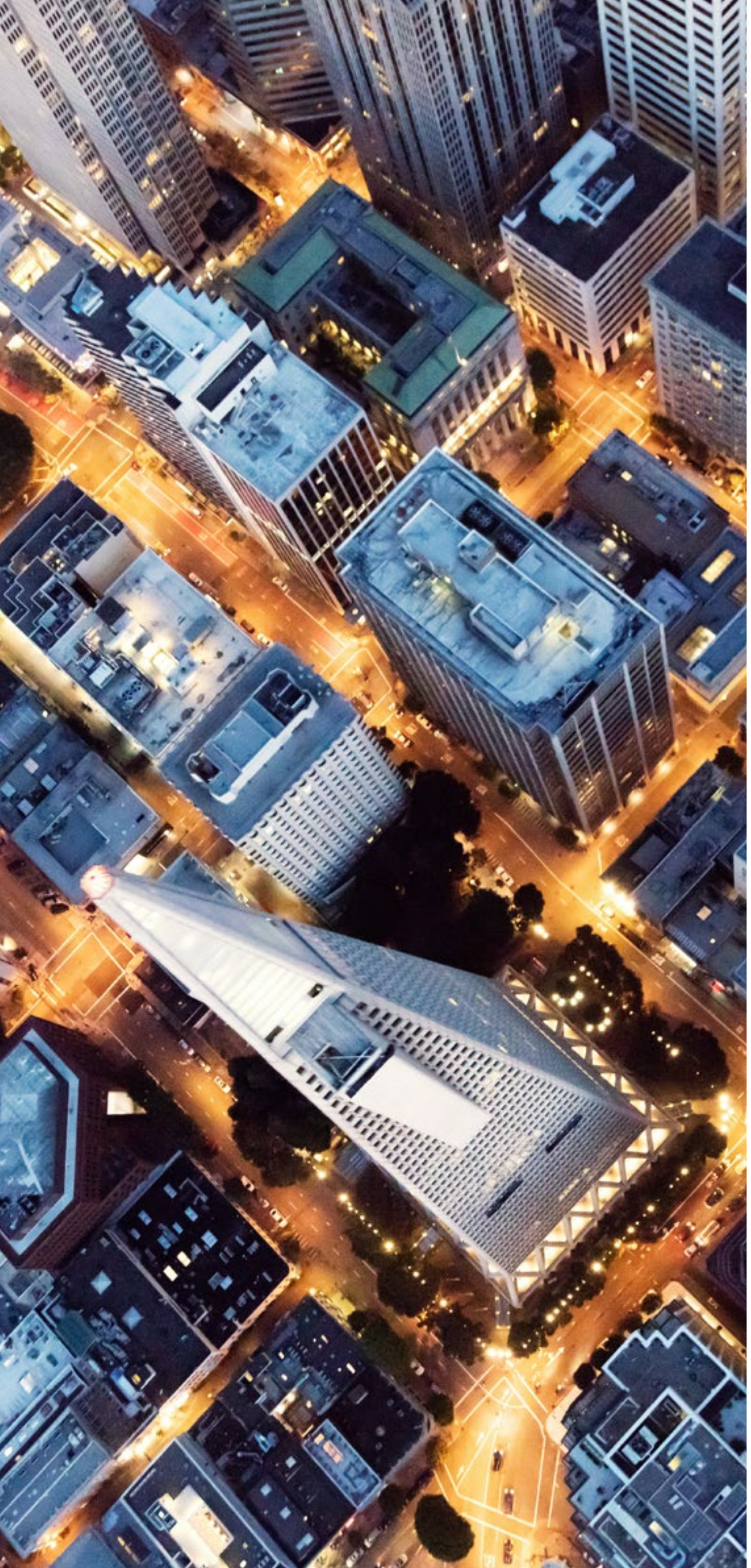
7 OECD, Corporate Tax Statistics: Third Edition, available at https://www.oecd.org/tax/tax-policy/corporate-tax-statistics-third-edition.pdf.

8 PwC, The changing profile of taxes borne between 2005 and 2021, The 100 Group Study, available at https://www.pwc.co.uk/services/tax/total-tax-contribution-100-group.html.

9 EBTF, Total Tax Contribution: a study of the largest companies headquartered in Europe (third edition), available at https://ebtforum.org/ttc/.

10 *Ibid.*

11 EBTF, Total Tax Contribution: a study of the largest companies headquartered in Europe (second edition), page 26, available at https://ebtforum.org/wp-content/uploads/2020/12/Total-tax-contribution-A-study-of-the-largest-companies-in-the-EU-and-EFTA-2020-Report-2.pdf.



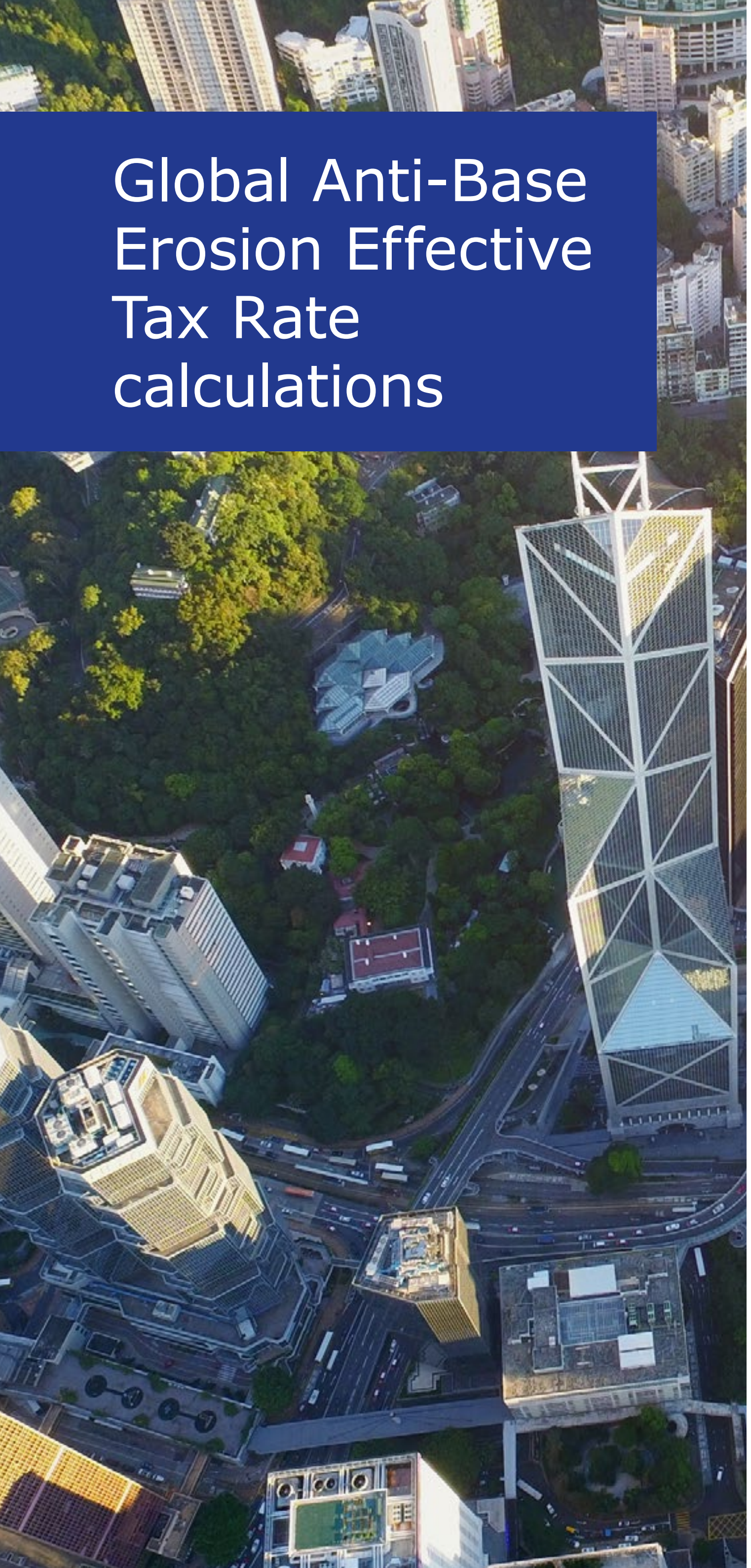
Is public Country-by-Country Reporting enough to build public trust?

Complying with the additional pCbCR requirements under the Amended Accounting Directive should be considered in the context of a MNE's overall tax strategy, tax governance and ESG objectives. The extent of the required public disclosures is unprecedented for many companies and careful consideration should be given to how CbCR data may be interpreted.

Indeed, disclosing the right level of information may prove to be somewhat of a dilemma, as the release of limited information (i.e., the information required to be disclosed under the Amended Accounting Directive) may not present a holistic view of the MNE's overall contribution to society. Furthermore, the pCbCR information is technical in nature and could be difficult for the broader audience to interpret without accompanying narrative. If MNEs don't explain the context, they may find it difficult to outline their approach once this data is made public. Questions from stakeholders may arise regarding the information being released. For this reason, MNEs could consider developing a tax transparency strategy which would take into account their broader stakeholder group. As part of this strategy, MNEs might consider publishing information relevant to other taxes in addition to profit taxes, which would present a more comprehensive view of their contribution to society. These additional disclosures could be accompanied with explanations to guide the stakeholders on how the provided data should be viewed and understood.

The EBTF believes that TTC is a comprehensive and representative way to measure how MNEs contribute in taxes to the societies and economies in which they operate. TTC illustrates how MNEs take responsible tax management seriously, abide by their ESG commitments, and contribute towards public finances.

Sections two to four are focused on exploring the interaction between CbCR and TTC data; analysing and interpreting the CbCR data, highlighting some of the challenges that arise from looking at CbCR data in isolation and finally, addressing some common questions around CbCR data.



Global Anti-Base Erosion Effective Tax Rate calculations

Recent developments

In addition to the developments in relation to pCbCR in the EU, the OECD released the Pillar Two 15% minimum ETR Model Rules on 20 December 2021.[12] As set out in the 8 October 2021 Statement by the OECD/G20, the Model Rules are the first of three expected sets of guidance: the Model Rules; an explanatory Commentary released on 14 March 2022; and a more detailed Implementation Framework, expected in the middle of 2022 at the earliest.

These Model Rules cover the income inclusion rule ("IIR") and undertaxed payments rule ("UTPR"). It has been reiterated that the aim for Pillar Two is to be brought into law in 2022, to be effective in 2023, with the UTPR to come into effect in 2024.

Next to the IIR and UTPR, which will be domestic law-based rules, Pillar Two also envisages a treaty-based rule. The subject-to-tax rule ("STTR") is aimed at preventing companies from avoiding tax on their profit earned in developing countries by making deductible payments such as interest or royalties that benefit from reduced withholding tax rates under tax treaties and which are not taxed (or taxed at a low rate) under the tax laws in the treaty partner countries. The wording of the STTR, together with a multilateral instrument for its implementation, will only be made available later in 2022.

On 22 December 2021, the EC published its proposal for a Council Directive "on ensuring a global minimum level of taxation for multinational groups in the Union" ("Draft Directive") aimed at implementing the Model Rules within the EU.[13]

The Draft Directive closely follows the Model Rules. However, it departs from the Model Rules "with some necessary adjustments, to guarantee conformity with EU law". On 12 March 2022, the French Presidency of the EU Council released a compromise text[14] to amend the Draft Directive which was issued last year. There were the following notable changes from the original wording:

1. The date on which Member States must make the Draft Directive effective has been changed from 1 January 2023 to 31 December 2023. The Draft Directive would need to be transposed in domestic legislation by that latter date. The UTPR was deferred to 31 December 2024.

2. There is an exception to the above in the event that a Member State has no more than 10 ultimate parent entities of in-scope MNE groups. Such Member States can elect not to apply the IIR and UTPR for the accounting periods beginning 31 December 2023 – 31 December 2025.

12 OECD, Tax Challenges Arising from the Digitalisation of the Economy Global Anti-Base Erosion Model Rules (Pillar Two), available at https://www.oecd.org/tax/beps/tax-challenges-arising-from-the-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two.pdf.

13 EC, Council Directive on ensuring a global minimum level of taxation for multinational groups in the Union, available at https://ec.europa.eu/taxation_customs/system/files/2021-12/COM_2021_823_1_EN_ACT_part1_v11.pdf.

14 Available at https://data.consilium.europa.eu/doc/document/ST-6975-2022-INIT/en/pdf.

3. Article 15 of the Draft Directive has been updated to include deferred taxes in the definition of “net taxes expense”.
4. Article 51 of the Draft Directive provides that in determining whether non-EU jurisdictions have a qualified IIR, the EC will propose an “implementing act” of equivalent regimes and that this implementing act will be voted on by the EU Council.

The compromise text was included on the agenda of the 15 March ECOFIN meeting where it was debated and ultimately voted on by the EU Finance Ministers. The proposal received broad support from most EU Member States, but not all. Estonia, Malta, Poland and Sweden expressed reservations on the compromise text, with the issues raised varying from the implementation date of 31 December 2023, to linkage between Pillars One and Two, amongst others. As the proposal required a unanimous vote to proceed, the compromise text was not moved forward. No unanimity was achieved in the ECOFIN meeting on 5 April 2022.

Earlier in 2021 it was announced that the publication of the Draft Directive by the EC will be accompanied in 2022 by another Directive on public disclosure of minimum ETRs in the EU by companies that fall under the scope of the Model Rules. The methodology for the disclosable tax rate would be based on the Draft Directive and it is still unknown whether this requirement for publication would be regarded as a provision on taxation (i.e., requiring unanimity at the EU Council) or a revision of the Accounting Directive (as used to propose pCbCR, requiring a qualified majority at the EU Council and co-decision by the European Parliament). It is currently unclear, if adopted, as of which accounting period such publication would need to take place.

A third system is born

Following the OECD and EC publications, for the first time, companies have a clearer outline of the Model Rules – although still with much more detail to be provided in the course of the year. What is also clear, however, is how complex the rules are, and how difficult it would be to comply with them. The 17 pages of newly defined terms pertaining to the Model Rules demonstrate the novelty of these rules, especially around the calculation of the tax base derived from financial accounting numbers. Indeed, while the consolidated financial statements of a MNE form the starting point for the calculation of covered taxes and income and loss, for the purposes of the Model Rules, a number of complicated adjustments and calculations need to be made. Furthermore, the jurisdictional and entity level (as opposed to business unit) calculations may not be straightforward, as many MNEs’ information technology systems are not set out to collect data in the manner envisaged by the Model Rules.

The OECD released on 14 March 2022 a 228-page Commentary on the Model Rules, a 49-page book of illustrative examples as well as a public consultation[15] on the GloBE implementation framework with a feedback deadline of 11 April 2022.

While a multitude of issues still need further clarification, companies are likely to want to consider a plan on how to prepare for reporting and compliance – bearing in mind, that further clarity may only come with the Implementation Framework in mid or late 2022. For this plan, modelling will be the first step to understand the real impact of specific provisions such as those regulating the treatment of historical losses and other tax assets (especially existing on or before 30 November 2021), the use of deferred taxes and the use of incentives and preferential tax regimes.

The stated timeline for Pillar Two remains very ambitious. The challenges of introducing the Draft Directive into domestic legislation around the EU are significant, leading some to question whether even the adjusted timetable is realistic. Nonetheless, with overall strong political commitment to Pillar Two, it can be expected that all Member States will adhere to the Draft Directive.

Implementation of Pillar Two in domestic laws, followed by publication of the ETR as calculated under the Model Rules, would effectively mean that MNEs (at least those with EU presence) will be faced with three sets of annual mandatory public disclosures on their taxes and ETRs in particular: financial statements, pCbCR, and GloBE ETRs. The question that therefore arises, and which this report aims at addressing in section five, is the possible interaction of these reporting systems with each other and with TTC.

15 More details on the public consultation available at https://www.oecd.org/tax/beps/oecd-invites-public-input-on-the-implementation-framework-of-the-global-minimum-tax.htm.

Section 02

Total Tax Contribution and Country-by-Country Reporting

Interaction between the two sources of information

Unlike CbCR, which focuses on CIT, TTC reports all the taxes that a company bears and collects. The paragraphs that follow correlate the various items in the OECD CbCR template filings to information on other business taxes, as derived from the TTC data of the participating companies. They demonstrate how TTC data complements CbCR data in a holistic manner, allowing many more and deeper comprehensible insights into MNEs' tax contributions. This is particularly useful during recessions and financial crises, when public revenue generation from CIT is disproportionately affected.

Findings

The table shows global TTC and CbCR data on a like-for-like basis for the 20 participating companies. A break-down of the figures between global and Europe is included in brackets, where appropriate.

Table 1 OECD CbCR Heading	CbCR Total	Related TTC data from participating companies
CIT (cash basis)	€13.3bn (€4.5bn)	In addition to CIT, companies bear and collect many other taxes (Global TTC: €116.9bn, Europe TTC: €79.8bn)
Number of employees	1.2m (0.6m)	In addition to paying wages and salaries, companies bear and collect people taxes (Global: €18.1bn, Europe: €14.3bn)
Tangible assets	€310.4bn (€203.6bn)	Companies bear and collect taxes on tangible and intangible assets (Global: €2.5bn, Europe: €2.4bn)
Third-party revenues	€554.9bn (€286.5bn)	Companies bear and collect product taxes on third-party revenues (Global: €35.9bn, Europe: €23.6bn)

€116.9bn

TTC globally

The TTC of the participating companies is €116.9bn, comprising €37.9bn in total taxes borne and €79.0bn in total taxes collected.

For every €1 of CIT, there is €0.95 in other taxes borne and €4.07 in taxes collected around the world. In Europe, this proportion is €1.65 and €7.55, respectively.

€13.3bn

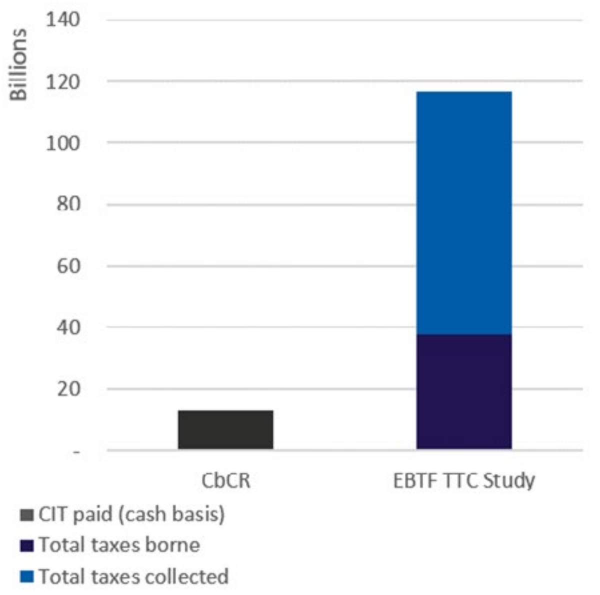
CIT paid globally

On a like-for-like basis, the participating companies paid €13.3bn in CIT globally and €4.5bn in Europe. The CTR is 28.9%.

Corporate income tax paid globally versus Total Tax Contribution

The OECD CbCR template focuses solely on CIT. Whilst this is undoubtedly important, companies pay many other taxes. For the participating companies, CIT paid on a cash basis totalled €13.3bn in the same countries that TTC data was provided. For this same group, total taxes borne corresponded to €37.9bn and their TTC to €116.9bn.

Figure 1 – Corporate income tax paid on a cash basis (OECD CbCR templates of participating companies) versus Total Tax Contribution data (EBTF TTC study)



For every €1 of CIT on a cash basis, there is an additional €0.95 of other business taxes borne and €4.07 in other taxes collected globally which are not reported in OECD CbCR template filings. In Europe, this ratio is €1.65 and €7.55, respectively. The visibility of the CIT paid by a MNE in a particular country, therefore, provides only a partial picture because other taxes borne represent a significant portion of the TTC, a cost to the company and an important element of the total tax revenue for governments.

Recent data shows that CIT is a relatively small part of MNEs' TTC in developed economies, representing a much larger proportion in developing economies.[16] To address the strain on public finances and encourage positive behaviour regarding climate change, environmental levies and taxes are expected to increase both in number and scope, further increasing the quantum of other taxes borne and collected by companies.

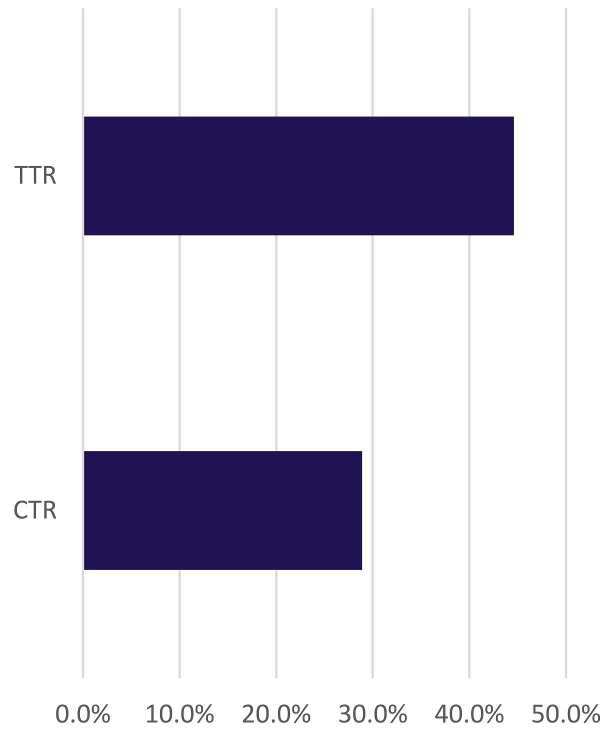
16 EBTF, Total Tax Contribution: a study of the largest companies headquartered in Europe (third edition), available at https://ebtforum.org/wp-content/uploads/2021/12/Total-Tax-Contribution-A-study-of-the-largest-companies-in-Europe-2021-Report.pdf.

44.6%

TTR globally

The proportion of taxes borne in relation to profits before all taxes borne (TTR) is, on average, 44.6%, which is significantly higher than the CTR of 28.9%.

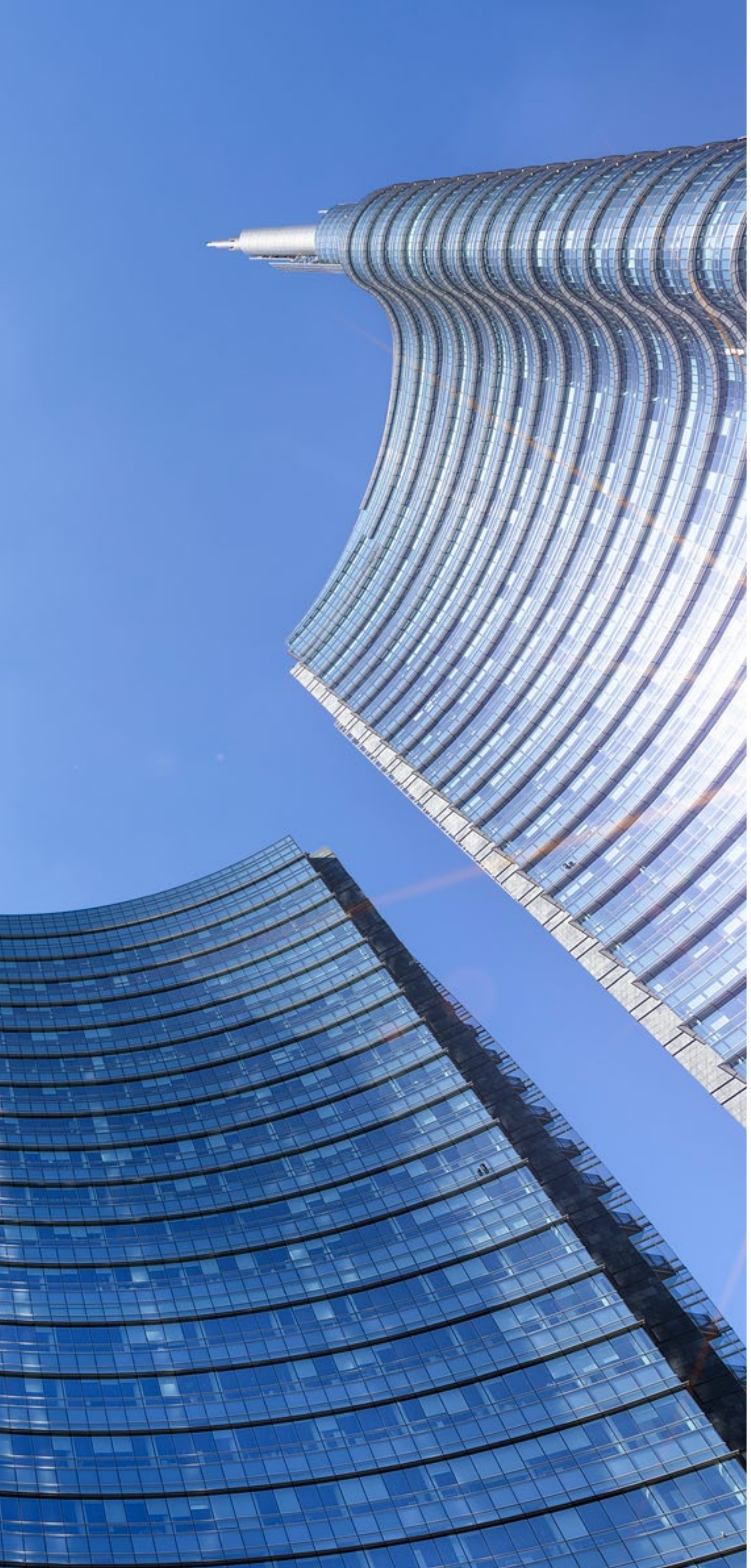
Figure 2 – Cash Tax Rate versus Total Tax Rate on a like for like basis



The CTR represents the proportion of CIT paid on a cash basis in relation to profits. Both measures are contained in the OECD CbCR template filings, enabling calculation of the CTR for any country. The CTR in 2020 is 28.9%, which is higher than the worldwide average statutory CIT rate among 177 jurisdictions (23.9%).[17] Notably, participating companies report revenues in 163 distinct jurisdictions. The TTR represents the proportion of taxes borne in relation to profits before all taxes borne. The TTR of the MNEs corresponds to 44.6% on a like-for-like basis.

As stated above, the emphasis on CTR shows only part of the picture whereas TTR provides a full scope and informs what proportion of profits are paid in the form of CIT and all other business taxes borne by the companies. For the calculation of the TTR, total taxes borne would be needed.

17 Tax Foundation, Corporate Income Tax Rates around the World, 2020. Available at: https://files.taxfoundation.org/20201208152358/2020-Corporate-Tax-Rates-around-the-World.pdf.



People taxes and number of employees

The OECD CbCR template highlights in which countries profits, number of employees and CIT are reported. By making CbCR filings public with no additional narrative on the amount of people taxes borne and collected, readers would have an overview only of the number of employees with no information regarding the companies' tax contributions related to the employment.

Total employment taxes paid by the participating companies amounted to €18.1bn, comprising €6.4bn in taxes borne and €11.7bn in taxes collected (in Europe, these figures were €14.3bn, €5bn and €9.3bn, respectively). The participating companies provided employment for 1.2 million people, paying on average €15,685 in employment taxes per employee. Of this total, €5,557 corresponds to employment taxes borne and €10,129 to employment taxes collected.

The average cost of employment[18] per employee for the participating companies is €29,291.

Property taxes and tangible assets

The CbCR filings of the participating companies show total tangible assets amounting to €310.4bn. For this same population, €2.5bn was paid in property taxes levied on the ownership and use of property and also on the acquisition and disposal of property. The consideration of property taxes enables a useful discussion around how much MNEs are taxed in respect of using, transferring and owning property.

Whilst the OECD CbCR template alone does not tell readers anything about the tax cost of owning, using, buying or selling tangible assets, when combined with the TTC data it becomes visible that property taxes borne represented 0.8% of total tangible assets in the OECD CbCR template filings for the same year.

Product taxes and third-party revenues

Product taxes include taxes and duties on the production, sale or use of goods and services, including taxes and duties on international trade. For the participating companies, total third-party revenues amounted to €554.9bn, with total taxes and duties borne in relation to their own consumption of goods and services amounting to €7.0bn, and product taxes collected on the sale of goods and services on behalf of their customers and paid over to the government totalling €28.9n, €35.9 collectively.

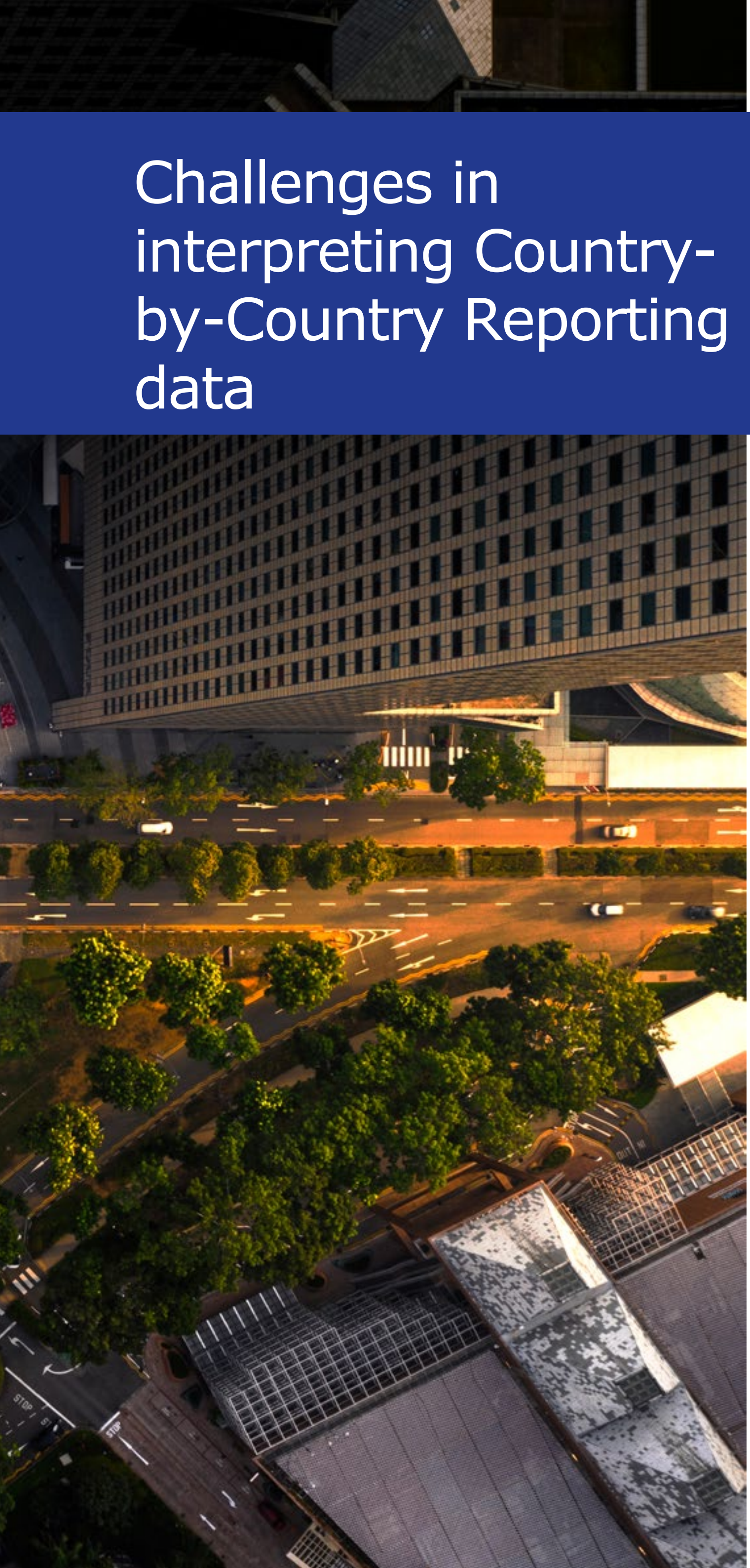
In other words, 6.5% of total third-party revenues were paid either as a product tax borne or collected in 2020. Although the OECD CbCR template includes third-party revenue data, it includes no information on product taxes, meaning that without additional TTC data it would be impossible to gain this insight.

18 The average cost of employment is obtained from the sum of net wages, people taxes borne and collected per employee. Source: EBTF, Total Tax Contribution: a study of the largest companies headquartered in Europe (third edition), available at available at https://ebtforum.org/wp-content/uploads/2021/12/Total-Tax-Contribution-A-study-of-the-largest-companies-in-Europe-2021-Report.pdf.

Section 03

Understanding the Country-by-Country Reporting data

Challenges in interpreting Country-by-Country Reporting data



When compared to the decades of experience and the literature available on accounting standards, CbCR is only just starting. In November 2019, the OECD published a paper summarising some common errors made by MNEs in preparing their CbCR filings.[19] Despite this publication, different policies and assumptions in respect of completing, analysing and interpreting CbCR filings will continue to surface in the years to come. Accordingly, the OECD also recognised that further efforts need to be undertaken in order to address the limitations of CbCR data.[20] In the meantime, as CbCR is a framework and not a standard like the International Financial Reporting Standards ("IFRS"), it is challenging to compare information and ultimately draw constructive and accurate conclusions about the tax affairs of MNEs and their contribution to the societies in which they operate.

The guidance provided by the OECD highlights the reason such caveats on the appropriate use of the data contained in the OECD CbCR template are necessary. While the guidance answers numerous frequently asked questions around the definition of items reported in the template, the presence of such questions sheds light on the interpretational difficulties companies face during the preparation of their CbC data. The opportunity for differing interpretations of what figures each column needs to contain underlines why CbC tables alone could not be used exclusively to draw conclusions around the tax affairs of companies. A careful analysis is required in the comparison of the CbC data between companies as their respective preparers could have adopted differing positions of what figures to include, raising concerns around the quality and comparability of the data.[21]

No narrative in respect of the OECD CbCR template filings of the participating companies was provided. Nonetheless, when analysing and comparing their CbCR data with other information available, such as their TTC data and annual accounts, it was possible to identify a number of interpretation challenges in respect of the OECD CbCR template filings.

19 OECD, Common errors made by MNEs in preparing CbC Reports, November 2019, available at https://www.oecd.org/tax/beps/common-errors-mnes-cbc-reports.pdf.

20 OECD, Important Disclaimer regarding the limitations of the Country-by-Country report statistics, January 2020, p. 1, available at www.oecd.org/tax/tax-policy/anonymised-and-aggregated-cbcr-statistics-disclaimer.pdf.

21 For a distinction between the CbCR requirements of *inter alia* the OECD and the Amended Accounting Directive, please refer to https://www.pwc.co.uk/tax/assets/pdf/tax-transparency-2021.pdf.

Findings

Revenue from related versus non-related parties

The OECD CbCR template contains revenues in two categories:

- third-party revenues: which is defined as "the sum of revenues (…) generated from transactions with independent parties"; and
- related party revenues: which is defined as "the sum of all revenues (…) generated from transactions with associated enterprises".

Notwithstanding the debate around the definition of what would constitute revenues, the OECD CbCR template requires data to be aggregated[22] for all entities in each country. Consequently, transactions between entities within the same country can cause revenue to be counted multiple times. The OECD CbCR template does not provide for an adjustment to eliminate transactions between related entities in the same country.

Double counting is also inevitable on intercompany charges between entities based in different countries. For example, if funds originated in Poland are used to pay intercompany charges to a legal entity based in Sweden, the money which was reported as a non-related party revenue in Poland will be included again as a related party revenue disclosed in Sweden.

What does the data show?

The aggregated revenue of the OECD CbCR template filings of the participating MNEs amounts to €1.3tn. However, if only non-related party revenues are considered, this amount is reduced to €731.7bn. This means that total revenues from related parties (i.e., €514.8bn) correspond to 70.4% of non-related party revenues for the participating companies, arguably creating an inaccurate impression as to how much revenue was generated.

Whilst the revenue metric does provide a useful insight into cash flows between entities in a group, there are some drawbacks to this approach. From the information contained in the OECD CbCR template alone, it is not possible to assess in detail whether an entity acts as a distributor or provides support functions to the wider group. To thoroughly understand the revenues generated and the substance of the MNE's operations, users of the CbCR must scrutinise other documentation (for example, the transfer pricing master and local files, neither of which are currently mandatorily made public).

22 "Aggregation refers to the summation of data on gross positions or flows. Under an aggregation approach, the total positions and flows data for any group of reporting units are equal to the sum of the gross information for all individual units in the group. In contrast, consolidation refers to the elimination of positions and flows between units that are grouped together for statistical purposes". International Monetary Fund, available at: https://www.imf.org/external/pubs/ft/fsi/guide/2006/pdf/chp5.pdf.

Stated capital and accumulated earnings

The OECD CbCR template shows the amount invested in a company as shares (capital) and the amount of earnings (or losses) accrued over time. Given the aggregated nature of the figures in the OECD CbCR template, the stated capital and accumulated earnings invested through a sequence of companies is counted more than once, not accurately reflecting the total amount which is actually invested.

What does the data show?

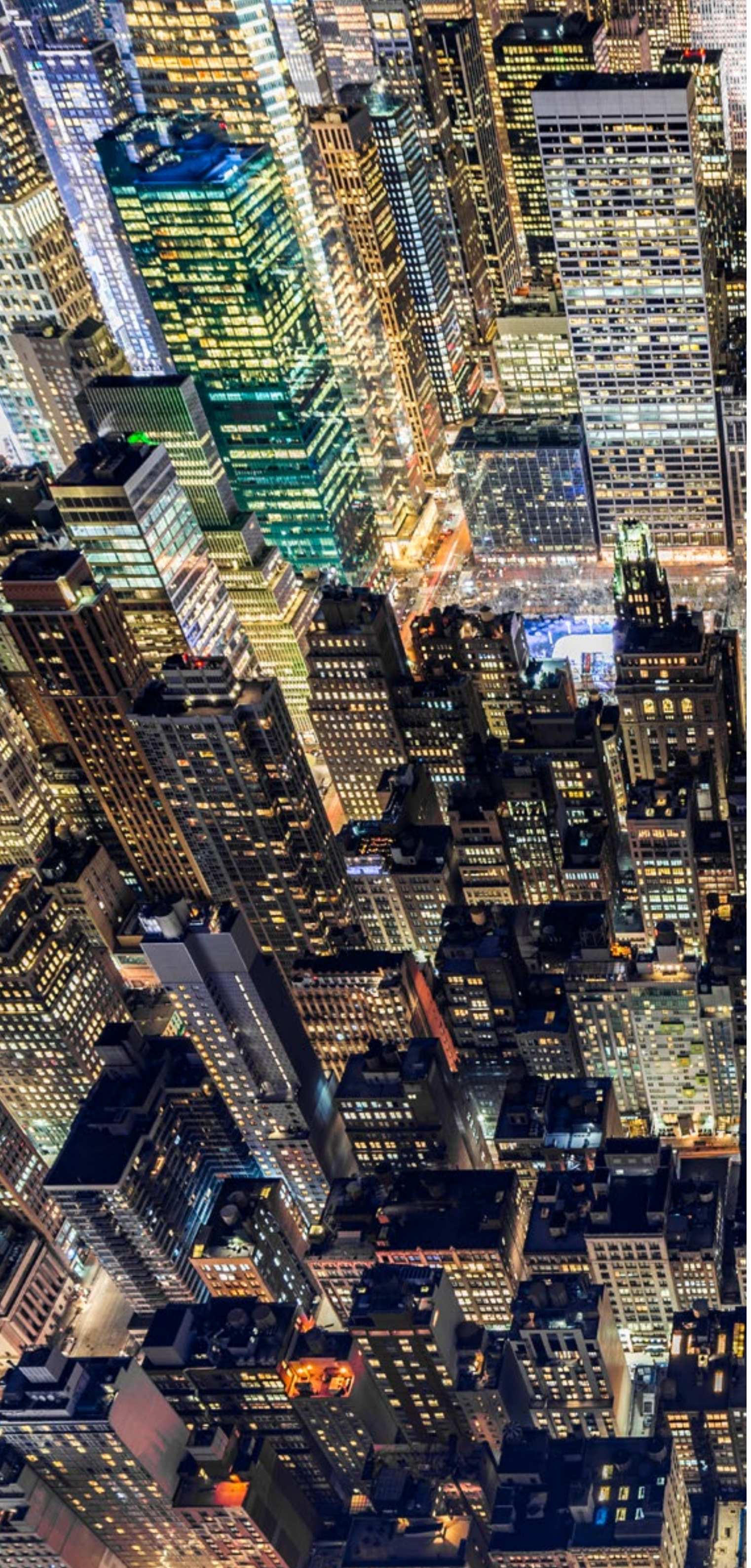
Total stated capital and accumulated earnings contained in the CbCR filings of the participating companies are €1.3tn and €864.7bn, respectively. However, when reviewing the information disclosed in the annual accounts of the participating companies, it was found that the consolidated figures actually are €116.6bn and €293.3bn respectively; the difference between aggregated and consolidated data on accumulated earnings, where the aggregated number is lower than the consolidated one, arises particularly as a result of counting accumulated earnings multiple times.

Particularly if a company has a complex structure, it is likely that the stated capital and accumulated earnings or losses have been counted more than once due to the challenges brought by aggregation, giving a misleading indication of the overall amount invested.

Tangible assets

The OECD CbCR template provides a total of infrastructure investments in each country. Global aggregated data from the CbCR filings of the 20 companies shows €418.7bn in tangible assets.[23] Property, plant and equipment for this same group of companies, as disclosed in their annual accounts is €424.5bn but this represents just a fraction of total consolidated assets disclosed.

23 Out of this amount, €310.4bn relates to countries for which TTC data was also available. Compare with table in section 2 of this report.



The difference is largely represented by intangible assets. These are not reported in the OECD CbCR template, which therefore only gives a partial idea of total assets. In an increasingly digital economy, where intangible assets are huge drivers of value for companies, this omission is of importance.

Employees

Not all activities are capital and labour intensive. With the diversification of business models and the way the supply chain is structured across countries, the number of employees provides an indicator of activity within the country, but the context of any operations must also be considered.

What does the data show?

In 2020, the participating companies employed 1.3m people,[24] 836k being located in developed economies and 469k in developing economies.

The revenue per employee varied significantly between the participating companies. While the average revenue per employee was €1.0m, the interquartile range was €1.7m showing a broad range, reflecting the different business models adopted by globally operating companies.

There are many business models, each with their own value chains, creating different tax profiles. For example, telecommunication services and the oil and gas sectors require heavy investments in infrastructure while service providers in technology are more mobile with smaller infrastructure requirements. Another example is retail, which is dependent on the location of the consumer. This means the CbCR profile of each company would look different from each other.

Corporate income tax paid and accrued

The OECD CbCR template includes two figures in relation to CIT: CIT paid (cash paid during the year) and CIT accrued.

The latter figure reflects the amount included in the accounts in relation to the CIT liability for that year. However, this amount does not include prior year adjustments arising from the filing of tax returns (“return to provision” or “true-up” amounts), nor deferred taxes[25] or payments arising from tax audits.

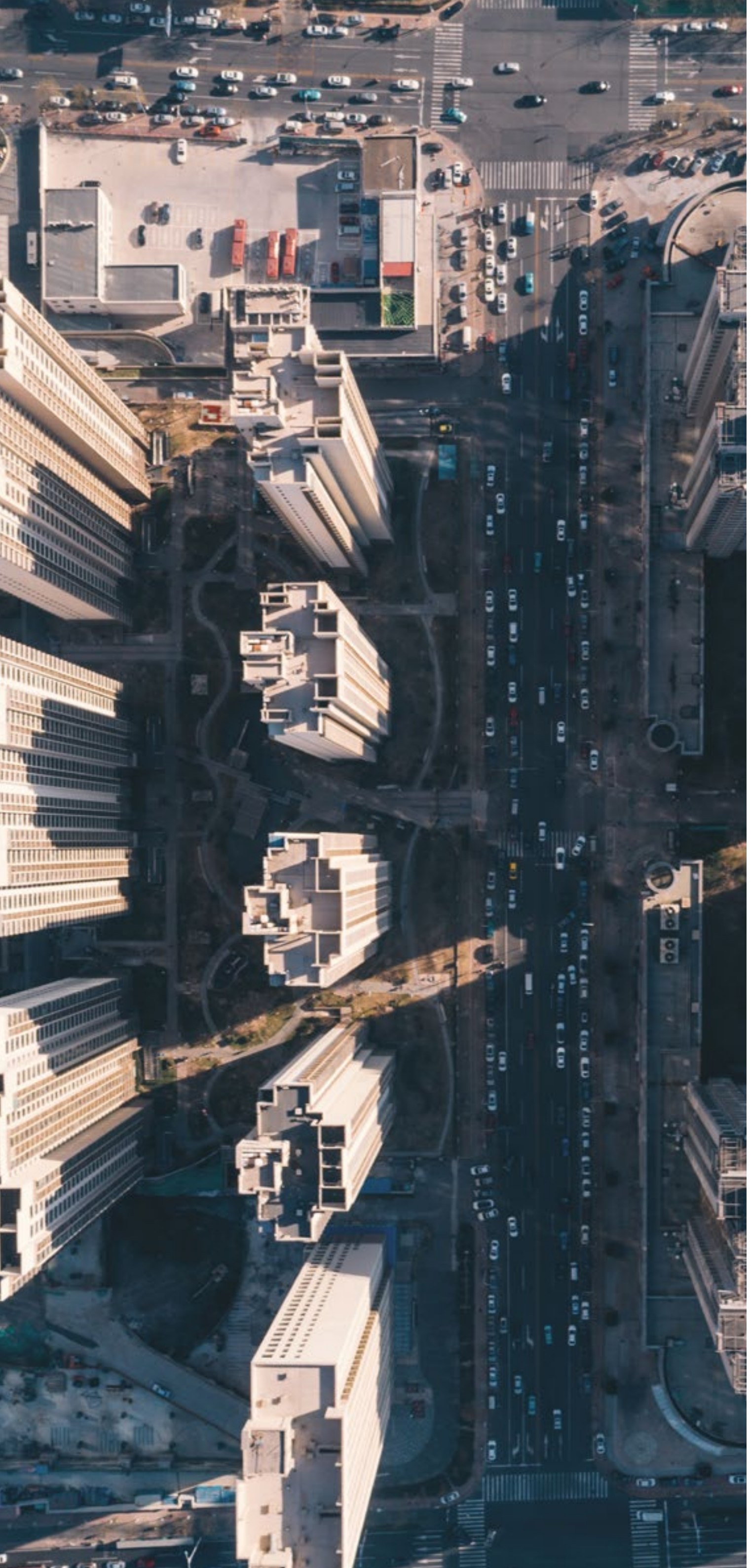
What does the data show?

According to Table 1 of the OECD CbCR filings of the participating companies, CIT paid amounted to €16.3bn.[26] Dividing by the global losses before taxes (€-6.2bn), a CTR of -264.0% is obtained. By taking out the oil and gas sector, due to the disproportionate impact that this sector was faced with as a result of COVID-19, CTR corresponds to 29.2%, which is closer to the global average

24 Out of this amount, €1.2m relates to countries for which TTC data was also available, highlighted in the table contained in section two of this report.

25 Deferred taxes are recognised to demonstrate the differences in treatment between the accounting standards and the tax legislation (“book-to-tax differences”); or international and local accounting standards (“statutory-to-GAAP differ-ences”) of a determined entity or group of entities.

26 Out of this amount, €13.3m relates to countries for which TTC data was also available. Compare with table in section two of this report.



statutory CIT rate of 23.9%.[27]

The annual accounts of the participating companies were examined to analyse this number in more detail. By taking into consideration amounts such as prior year adjustments,[28] deferred taxation and payments arising from tax audits, the average ETR corresponds to 23.1%.[29]

Profits before tax

Profits are calculated by deducting costs from revenues. Profit before tax is the starting point of a CIT calculation and needs to be adjusted in accordance with the tax legislation in effect in the relevant country.

A common example relates to the receipt of dividends. These are sometimes included[30] in profits disclosed in the OECD CbCR template but are usually exempt from taxation. The profits included in the OECD CbCR template, therefore, can vary significantly from the taxable income driving taxes paid in each country.

What does the data show?

According to the OECD CbCR template filings of the participating companies, global profits before tax amounted to €-6.2bn. Out of this total, €-0.4bn arose in developed economies and €-5.8bn in developing economies. In the CIT paid and accrued section (above), tax ratios in relation to profits are discussed in more detail.

The exclusion of the oil and gas sector would result in €41.7bn, €25.7bn arising in developed economies and €16bn in developing economies.

27 Tax Foundation, Corporate Income Tax Rates around the World, 2020, available at https://files.taxfoundation.org/20201208152358/2020-Corporate-Tax-Rates-around-the-World.pdf.

28 Prior year (or "true-up", "return to provision") adjustments refers to an adjustment to the estimated amount of CIT. CIT are calculated and paid based on estimates. The filing of the tax return may require adjustments. Changes in estimates may also be identified assuming they were not known in an earlier reporting period.

29 Average ETR of profitable companies. Including loss-making companies, the ETR would be 15.9%.

30 Note the recommendations from the OECD to exclude dividends, as published in the implementation guidance available at: http://www.oecd.org/tax/beps/public-consultation-document-review-country-by-country-reporting-beps-action-13-march-2020.pdf (item 14.1).

Section 04

Some common questions on Country-by-Country Reporting data

Operations in low-tax jurisdictions

One of the arguments in favour of making the OECD CbCR filings public was for the wider public to be able to better understand whether MNEs are engaging in tax avoidance. In this respect, some common questions that could arise from reviewing the OECD CbCR template could be:

- The company has operations in low-tax jurisdictions: why?
- There appear to be profits which have not been taxed: why?

The paragraphs below aim at providing some answers to these questions based on analysing the information in respect of the participating companies.

The EU list of non-cooperative jurisdictions for tax purposes is part of the EU's external strategy for taxation and aims to contribute to the ongoing efforts to promote tax good governance worldwide.[31] It lists non-EU jurisdictions that either have not engaged in a constructive dialogue with the EU on tax governance or have failed to deliver on their commitments to implement reforms to comply with a set of objective good tax governance criteria, concerning tax transparency, fair taxation and implementation of international standards against BEPS.

Following an update in October 2021,[32] nine jurisdictions are included in the list of non-cooperative jurisdictions: American Samoa, Fiji, Guam, Palau, Panama, Samoa, Trinidad and Tobago, US Virgin Islands and Vanuatu.

The OECD CbCR templates of the participating companies consisted of 634 individual country operations. Out of the 634 country operations, 12 were in six countries on the EU list. There can be a number of valid and non-tax reasons why MNEs have operations in these jurisdictions, varying from commercial operations to structural legacy.

The table shows the aggregate data for the operations of the participating companies in the six countries on the EU non-cooperative jurisdictions listed in the data provided, namely Barbados, Fiji, Guam, Panama, Seychelles and Trinidad and Tobago.

When considered in the context of global operations, only a very small proportion of total transactions of the participating companies are conducted in countries contained in the EU list.

Metrics (in €bn)	All countries	Barbados, Fiji, Guam, Panama, Seychelles, Trinidad and Tobago	% in relation to total
Stated Capital	1,324.9	1.5	0.1%
Tangible Assets	418.7	3.5	0.8%
Accumulated Earnings	864.7	0.4	0.0%
Related-Party Revenues	514.8	0.9	0.2%
Third-Party Revenues	731.7	4.1	0.6%
Total Revenues	1,246.5	5.0	0.4%
Profit Before Tax*	41.7	0.3	0.8%
CIT Paid	16.3	0.1	0.6%
CIT Accrued	13.4	0.1	0.7%
Number of Employees	1.3m	3.4K	0.3%

* Adjusted for outliers (excluding oil and gas).

31 The EU list was chosen as a reference point due to its objective nature and EU origin.

32 EU Council, Taxation: EU list of non-cooperative jurisdictions, available at https://www.consilium.europa.eu/en/policies/eu-list-of-non-cooperative-jurisdictions/.

Non-taxation of profits

Individual company data shows that ratios of tax paid to profit ranged from -6,772.9% to 777.7%.[33] In seven countries[34], no CIT was paid on profits of €641.3m. The table shows the aggregate data for these seven countries in relation to the total:

Metrics (in €bn)	All countries	Countries where no CIT is paid	% in relation to total
Stated Capital	1,324.9	0.1	0.0%
Tangible Assets	418.7	0.1	0.0%
Accumulated Earnings	864.7	0.1	0.0%
Related-Party Revenues	514.8	9.6	1.9%
Third-Party Revenues	731.7	4.3	0.6%
Total Revenues	1,246.5	13.9	1.1%
Profit Before Tax*	41.7	0.6	1.6%
CIT Paid	16.3	0	0.0%
CIT Accrued	13.4	0.0001	0.0%
Number of Employees	1.3m	1K	0.1%

* Adjusted for outliers (excluding oil and gas).

Profits are calculated by deducting costs from revenues. Profit before tax reflects the starting point of a CIT calculation and needs to be adjusted in accordance with the tax legislation in effect in each country. For this reason, the amount obtained by multiplying total profits by the statutory rate may differ significantly from the total CIT paid. Items contributing to the difference include:

- **Offset of tax losses brought forward:** If an operation is unprofitable one year, tax losses may be available to carry forward to offset against future profits. The tax losses will reduce the tax paid but not the accounting profit. Depending on the amount of tax losses which are available, longer periods of time would be needed to generate CIT payments.

- **Non-taxable income:** tax legislation does not tax certain types of income which are included in the profit and loss account, for example, dividends received. This is to avoid double taxation, since the profits from which dividends are paid were already taxed in the entity where they originated.

- **Tax incentives:** fiscal regimes may contain incentives designed to stimulate the economy such as tax allowances to encourage capital investment. Common examples would be patent boxes, capital investment incentives, accelerated tax depreciation, research and development credits and decarbonisation incentives. Tax incentives reduce the tax paid but not the accounting profit.

Given the above, without further information it is difficult to adequately understand the reason there were no CIT paid in the seven countries.

33 Median: 29%; Average: 32%.

34 Bahamas, Bahrain, Curacao, Georgia, South Sudan, UAE and US Virgin Islands.

Section 05

Interaction between Country-by-Country Reporting data and the Global Anti-Base Erosion Effective Tax Rate Model Rules

Striking the balance between simplicity and accuracy

As mentioned earlier, the Model Rules depart from the calculation of ETR based on the data contained in the OECD CbCR template. Instead, the Model Rules take as a starting point the covered taxes and income and loss figures derived from the consolidated financial statements on a per entity level with a number of required adjustments.

While recognising possible limitations as well as the already advanced stage of discussions at the OECD and the EU, leveraging on existing tax calculations, for instance aligning to the CbCR undertaken under the parent company's accounting standards could be considered as an alternative to the complex GloBE calculations. In addition, in the context of the IF, there have been discussions about using a simplified ETR calculation based on the disclosure by a MNE of its CbCR data to provide an approximation of the more detailed GloBE calculations. The MNE would qualify for such safe harbour when this ETR is above a certain CbCR safe harbour minimum rate. This could be higher than the 15% minimum rate in the Model Rules to reflect the differences between CbCR figures and the GloBE income and adjusted covered taxes.

As mentioned in the UK's public consultation document on Pillar Two: "There is an important policy design question about whether the divergence between the two sets of data and rules should be addressed through increasing the CbCR safe harbour rate above 15% or whether there should also be adjustments to the CbCR figures to bring them closer into line with how the GloBE ETR is calculated. There is a trade-off between accuracy and simplicity. Increasing the number of OECD CbCR template adjustments reduces the risk that a MNE inappropriately qualifies for the safe harbour or is being excluded from the safe harbour. However, it also increases the complexity of the calculation and therefore reduces some of the simplification and proportionality benefits the safe harbour is intended to provide."[35] This is especially true given the fact that the data needed for the ETR calculation under the Model Rules – and hence potentially for the OECD CbCR template adjustments – are unlikely to be readily available and would require a significant time and resources investment for MNEs as well as tax administrations receiving and auditing such data. Therefore, any use of CbCR as safe harbour should not lead to the alteration of the CbCR template.

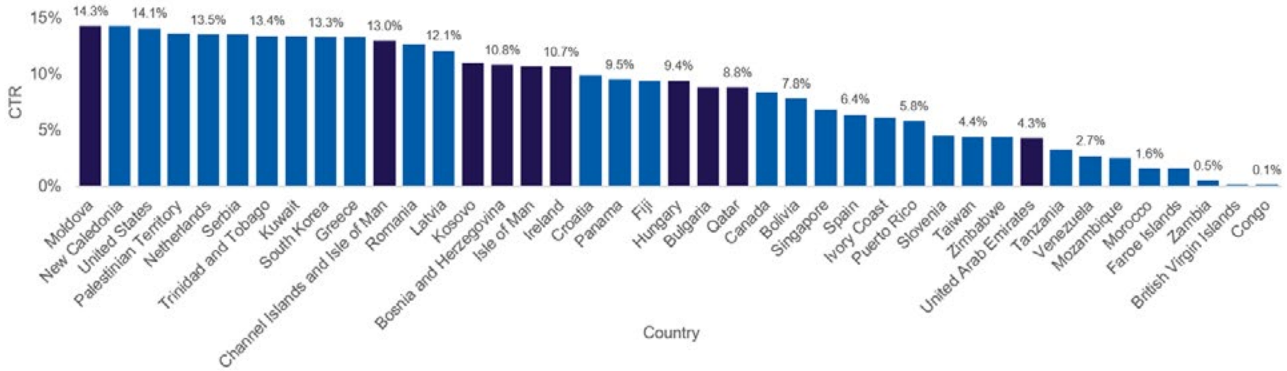
What does the data show?

At the time of writing of this report, using the full set of data to calculate the GloBE ETR was not possible, as participating companies are now commencing/have not completed the process of identifying and sourcing the data needed for Pillar Two reporting and compliance purposes. Whilst recognising the outlined limitations of the data contained in the OECD CbCR template and given the fact that the use of the CbCR safe harbour is being discussed as a pragmatic alternative to the complex GloBE ETR calculations, the aggregated OECD CbCR template data of the participating companies was used to provide a view where tax rates fall below the minimum agreed rate of 15%.

Based on the aggregated CbCR data of the participating companies, out of the 163 countries for which CbCR data is available, 41 countries have a CTR below 15%.

35 HM Treasury & HMRC, OECD Pillar Two, Consultation on implementation, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1045663/11Jan_2022_Pillar_2_Consultation_.pdf.

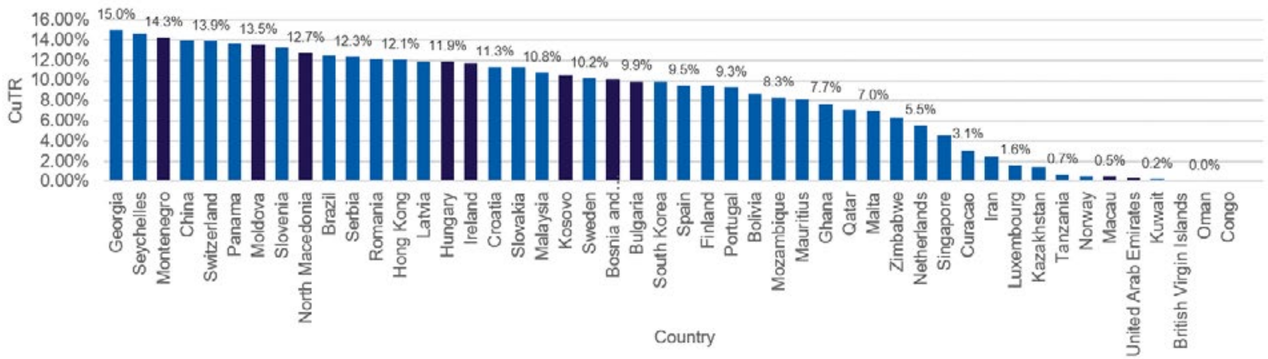
Figure 3 – Cash Tax Rates within the 0% – 15% range by country of participating companies



Source: Participating companies. Countries with a statutory tax rate below 15% are highlighted in dark blue.

The next figure shows the countries where the CuTR of the participating companies is below 15% as per the dataset. For CuTR, out of the 163 countries, 48 were below 15%:

Figure 4 – Current Tax Rates within the 0% – 15% range by country of participating companies



Source: Participating companies. Countries with a statutory tax rate below 15% are highlighted in dark blue.

Given the differences between the data required for ETR calculation under the Model Rules and the data contained in the OECD CbCR template, these figures, which are based on the latter, by definition, ignore many of the adjustments to GloBE income and covered taxes mandated by the Model Rules. These include for example adjustments for timing differences as reflected in deferred taxes. An immediate consequence is that the rates of tax in some cases are underestimated. Indeed, the data from the OECD CbCR templates show rates of tax below 15% in respect of countries where this would not be expected, such as Sweden, Austria and Portugal. In addition, the available data do not take into account changes in domestic tax policy following the introduction of Pillar Two. As an example, the United Arab Emirates, which unsurprisingly are on the figure above, have announced the introduction of CIT in 2023. These items should be appropriately considered when potentially designing a CbCR safe harbour, without, however, leading to the alteration of the OECD CbCR template.

Public Country-by-Country Reporting and publication of the Global Anti-Base Erosion Effective Tax Rate

The personal scope of the Amended Accounting Directive corresponds with the scope of the Draft Directive implementing the Model Rules within the EU and is also expected to correspond with that of the directive scheduled to be proposed by the EC in 2022 requiring the publication of the ETRs calculated as per the Model Rules. This effectively means that – next to their annual financial statements – companies meeting the €750m turnover threshold will be faced with parallel disclosures of ETRs calculated on the basis of two different set of rules (i.e., those following from the OECD CbCR template and those mandated under the Model Rules). Depending on the adoption process and envisaged entry into force of the directive requiring the publication of the ETRs calculated as the Model Rules, it is even possible that publication of the latter could take place earlier than pCbCR.

As outlined in sections two through four, while pCbCR could provide information to the broader public on the CIT position of companies, it comes with certain shortcomings that can be better addressed with the provision of additional context and explanations. Given the increased complexity of the Model Rules, it can only be expected that the publication of the ETRs as calculated under these rules would equally require appropriate narrative. Such a narrative might need to explicitly address the differences between the two parallel ETR calculations and outline how stakeholders need to understand potentially differing figures. TTC can play an important role in this respect, complimenting the ETR data in a comprehensive and widely understandable way.

Final observations

The purpose of the EBTF is to contribute to the public tax debate by providing facts and analyses which can be used by the various stakeholders and decision-makers to form their views and positions. It is in this context that this report was commissioned.

In particular, the EBTF recognises the importance of tax transparency around taxation, including but not limited to CIT. The EBTF is a supporter of providing the full picture and explaining to stakeholders how much taxes are borne and collected by the MNEs. It is in that context that TTC studies as well as this report are particularly valuable.

Indeed, tax is a complex topic and when the OECD CbCR template filings of MNEs become public, they would at a minimum require additional explanatory narrative and context to avoid incorrect or incomplete conclusions. This is because the OECD CbCR template contains limited information, which is technical and difficult to interpret and analyse in isolation. Without appropriate supplementary information, there is a risk that the OECD CbCR template would not contribute to the public tax debate in a constructive and balanced way. Considering that one of the main objectives of the OECD CbCR is to provide further tax transparency, this report shows how TTC information can complement the OECD CbCR template in many ways, providing a broader understanding of MNEs' tax contribution, which goes beyond CIT.

The Model Rules and the anticipated EC proposal on publication of the ETRs as calculated under the Model Rules will create an additional layer of tax technical and administrative complexity for companies and tax administrations around the world. Next to considering the need to strike a balance between accuracy and simplicity, these developments reiterate that a 'one size fits all' approach to publication of tax data may not be the best solution to increase tax transparency. It can only be expected that the publication of the ETRs as calculated under these rules would equally require appropriate narrative. TTC can play an important role also in this respect, complimenting the ETR data in a comprehensive and widely understandable way.

This report by no means represents the view of every EBTF member. With regard to pCbCR and GloBE, each member of the EBTF will need to consider how they will respond to these challenges in accordance to their particular circumstances.

Appendices

Appendix A – Index of abbreviations

CTR	Cash Tax Rate
CbCR	Country-by-Country Reporting
CIT	Corporate income tax
COVID-19	Coronavirus Disease 2019
CuTR	Current Tax Rate
EBTF	European Business Tax Forum
EC	European Commission
ETR	Effective Tax Rate
EU	European Union
ESG	Environmental, Social and Governance
GloBE	Global Anti-Base Erosion
IBC	International Business Council
IF	OECD/G20 Inclusive Framework
IIR	Income Inclusion Rule
IRS	Internal Revenue Service
MEP	Member of the European Parliament
MNE	Multinational Enterprise
OECD	Organisation for Economic Co-operation and Development
pCbCR	Public Country-by-Country Reporting
STTR	Subject to Tax Rule
TTC	Total Tax Contribution
TTR	Total Tax Rate
UK	United Kingdom
US	United States
UTPR	Undertaxed Payments Rule
WEF	World Economic Forum

Appendix B – A comparison of available 2018 Country-by-Country Reporting data

Introduction

In 2020, as part of the second edition of its TTC study, the EBTF published the first version of this report.[36] As mentioned in section one, the CbCR chapter contained therein was based on global CbCR data for accounting periods ending in the year to 31 December 2018 and provided by 11 companies (hereinafter the 2020 participating companies).

Subsequently, CbCR data was also made publicly available by the US Internal Revenue Service ("IRS")[37] and the OECD covering calendar years 2018 and 2017, respectively.[38] In particular, the US IRS dataset includes CbCR data collected for US MNEs that have annual revenues of $850 million or more in the immediately preceding reporting period. In the US, CbCR data is reported on the IRS Form 8975 – Country-by-Country Report and Form 8975 Schedule A – Tax Jurisdiction and Constituent Entity Information. The period covered in this dataset is the 2018 tax year (June to July). In July 2021, the OECD released the third edition of the Corporate Tax Statistics containing the second set of aggregated and anonymised data from CbCR filings by country. The period covered in this dataset covers fiscal years ending between 1 January 2017 and 31 December 2017.

This Appendix provides a comparison of the three CbCR datasets, on a like-for-like basis, i.e., only including countries where data was available from all three sources.

Limitations of the dataset

Both the US IRS and the OECD published documents highlighting limitations of their respective CbCR datasets.[39] The OECD broadly highlights the general limitations also outlined in section three of this report. It also notes the inconsistent treatment of intra-company dividends (later clarified as of 2020), stateless entities and mentions the possibility of reporting deferred taxes in the future.

There are limitations to the comparison performed herein, due to two main reasons. First, the number of CbCR datasets available from the 2020 participating companies, as compared to the number of CbCR datasets available to the US IRS and the OECD. In this respect, it is to be hoped that this comparative analysis can be carried out in future years with a wider set of participating companies' data, provided that more recent data is made publicly available by the IRS and the OECD. Second, the OECD CbCR datasets relate to a different year. However, arguably both 2017 and 2018 were comparable, as the world gross domestic product grew with 3.39% in 2017 and with 3.27% in 2018.[40]

36 EBTF, Total Tax Contribution: a study of the largest companies headquartered in Europe (second edition), available at https://ebtforum.org/wp-content/uploads/2020/12/Total-tax-contribution-A-study-of-the-largest-companies-in-the-EU-and-EFTA-2020-Report-2.pdf.

37 US IRS CbCR data available at https://www.irs.gov/statistics/soi-tax-stats-country-by-country-report.

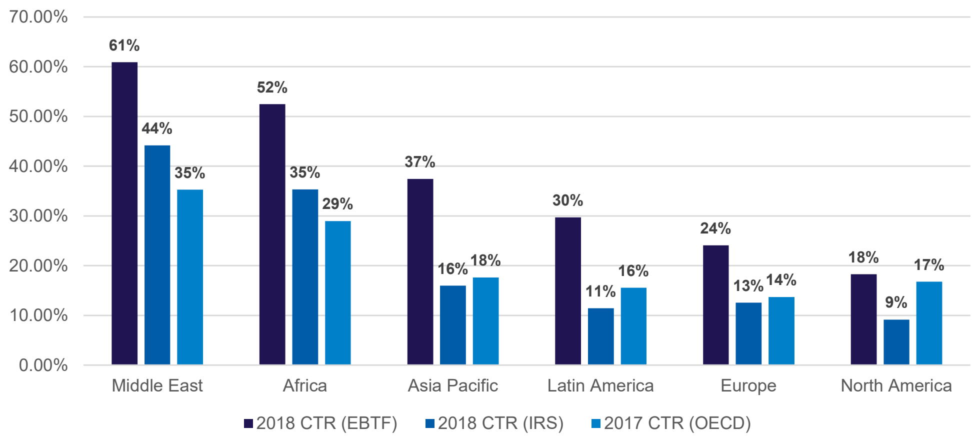
38 OECD CbCR data available at https://stats.oecd.org/Index.aspx?DataSetCode=CBCR_TABLEI.

39 US IRS' dataset limitations available at https://www.irs.gov/pub/irs-soi/18itdocumentationcbc.pdf; OECD's dataset limitations available at https://www.oecd.org/tax/tax-policy/anonymised-and-aggregated-cbcr-statistics-disclaimer.pdf.

40 World Bank, available at https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG.

Findings

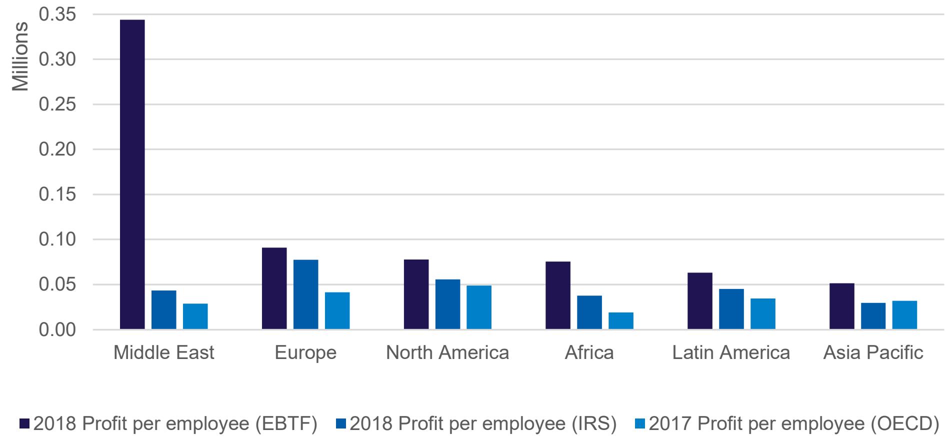
Figure 5 – Cash tax rates by region (on aggregated basis)



Considering profitable countries only (Figure 5), the CTR of the 2020 participating companies in 2018 is consistently higher than the CTR for the US IRS and OECD datasets across the five global regions. The higher rate could be explained by the mix of sectors represented by the 2020 participating companies. The US IRS dataset contains a higher number of companies in the manufacturing and wholesale and retail trade, transportation and warehousing sectors.

All three datasets presented the highest overall CTR in the Middle East region. Whilst countries in this region usually have no CIT or a low income tax rate, there are other taxes on production which are categorised as income tax paid.

Figure 6 – Profit per employee by region (aggregates)



Profit per employee was calculated by dividing the aggregate profit by the aggregate number of employees for each country. Profit per employee can provide an insight into, albeit is not a complete measure of, productivity. The 2020 participating companies presented a higher profit per employee ratio in 2018 when compared to the US IRS and OECD profit per employee ratios during 2018 and 2017 respectively, indicating higher productivity across the five regions.

Appendix C – Relevant developments

Global Reporting Initiative's standard on tax

The Global Reporting Initiative ("GRI") sustainability reporting standards are widely accepted global standards for sustainability reporting and many companies aim at being (or becoming) GRI compliant. The GRI has issued a standard on tax which contains a requirement for public CbCR (GRI 207 tax).[41] It also states that companies can additionally give information on industry- related payments and other taxes that they pay or collect.

The standard obtained approval in December 2019 and is effective for reports issued from January 2021.

Environmental Social and Governance metrics and voluntary reporting

ESG criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Tax is increasingly becoming an important part of ESG and, following

COVID-19, this attention is unlikely to decrease. ESG analysts are increasingly incorporating CbCR into their tax metrics.

A small number of companies in the FTSE 100 have published some form of CbCR in relation to 2020 results, containing a geographical split of revenues, profit, employees and taxes paid.

World Economic Forum International Business Council

In September 2020, the International Business Council ("IBC") released a new paper without public CbCR as one of its metrics, replacing it with TTC. The paper 'Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation'[42] sets out as one of the core tax metrics the taxes borne element of the TTC methodology; and, as expanded metrics, taxes collected and/or geographic analysis of the TTC data.

OECD's published aggregated data of nearly 4,000 MNEs

The OECD released aggregated information on the global tax and economic activities of nearly 4,000 MNE groups headquartered in 26 jurisdictions and operating across more than 100 jurisdictions worldwide. The data was limited by the fact that not all countries supplied data for the aggregation, some countries supplied partial data and the treatment of individual data points (e.g., dividends) varied between countries.

However, interest in the data was high and the analysis was the subject of varied commentary.

41 https://www.globalreporting.org/standards/media/2369/item_04_-_final_version_of_gri_207_tax_2019.pdf.

42 http://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf.

Appendix D – Content of EU public Country-by-Country Reporting requirements

Who is in scope?	Undertakings with a consolidated net turnover of €750m or more
Level of reporting for operations in Member States	Data to be reported on a geographical basis for each Member State (and certain jurisdictions which are regarded as having inadequate tax governance)
Level of reporting for operations outside the EU	Aggregated level data (apart from certain jurisdictions noted above)
Content of template	Brief description of activities; number of employees; net turnover; profit or loss before tax; tax accrued (excluding deferred tax and uncertain tax positions) in the year; tax paid in the year; accumulated earnings
Commercially sensitive information	To ensure fair competition, commercially sensitive information may be temporarily omitted if it is seriously prejudicial to the commercial position of the company
Availability	Publicly available on the company's website

Appendix E – Table 1 of the OECD CbCR filing template

Table 1. Overview of allocation of income, taxes and business activities by tax jurisdiction

Name of the MNE group:
Fiscal year concerned:
Currency:

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	Tangible Assets other than Cash and Cash Equivalents
	Unrelated Party	Related Party	Total							

RITM7853298