Tax Transparency and Public Country-by-Country Reporting

A study of the largest companies headquartered in Europe

www.ebtforum.org

March 2023

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 society by large businesses. 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 headquartered 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 152 countries with almost 328,000 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 second study, dedicated exclusively to country-by-country reporting (CbCR) data. The 1st iteration of this study was issued in 2022 in response to the seemingly relentless focus on corporate income tax (CIT) in the media when assessing and commenting on a companies' tax information. This trend sees little chance of abatement, and accordingly the EBTF thinks it is helpful to provide an objective data-based contribution to the debate, so commentators can consider for themselves what the real message behind a multinational companies' (MNC) tax data is.

Further, we are also delighted to be able to showcase simultaneously the publication of a new study by the Amsterdam School of Communication Research of the University of Amsterdam. That study requested by the EBTF performs an independent study of the evolution of the public tax debate over the last 20 years, giving valuable context to how headline tax figures can be interpreted and presented to meet various agendas. A finding from that study highlights the value that country-by-country level tax reporting can bring by being seen and used more proactively as a valuable resource for developing a strategic tax narrative, facilitating, and enhancing communication with key stakeholders and allowing MNCs to attempt to assert a measure of control over the public messaging.

We have gathered global CbCR data from 35 of the 61 Total Tax Contribution (TTC) study participants, which continues to show the volatility in headline CIT collections globally. Tax revenues, including CIT, have increased year on year from 2020 as shown in these results, although it should be noted the 2020 and 2021 study participants' data sets are not entirely aligned, accordingly the increase indicates a trend rather than a quantitative comparable. Nevertheless, CIT remains a relatively small proportion of MNCs overall tax contribution and is calculated on markedly different tax bases globally.

Notwithstanding this, the Organisation for Economic Co-operation and Development's (OECD) Pillar Two work focusing on CIT continues to be at the forefront of global tax policy with significant progress being made at the OECD in harmonising and rolling out the rules globally. Additionally, many governments are now introducing unilateral readiness measures to get compliant with the global minimum (CIT) tax requirements of 15%, such as introducing their own domestic minimum taxes. The extent to which Pillar Two brings in millions in previously base eroding tax revenue is, an as yet moot point and it continues to be largely a costly and time-consuming compliance exercise for many taxpayers. That said the EBTF welcomes the recent publication on transitional safe harbours which enable taxpayers to overlay CbCR information on their financial accounts as a proxy for determining local tax rate for Global Anti-Base Erosion (GLoBE) 15% purposes.

Whilst CbCR data has certain flaws (and is far from a consistent reference point globally), it does seem appropriate to use a simplified metric on CIT to assist in calculating a very complicated new tax based on a perceived erosion of CIT tax bases globally. This is a compromise that brings some element of simplification to Pillar Two and perhaps could and should remain in place after the 2026 transitional period once the initial GloBE tax liabilities begin to be more widely understood.

Elsewhere, the EU's public CbCR (pCbCR) directive is gradually being transposed into domestic legislation across the EU. With CbCR data for many MNC taxpayers making the transition from the relatively private sphere of direct filing with relevant tax authorities, to the scrutiny of public release, it will be interesting to watch and assess how the tax debate continues to play out. To date, tax authorities have had several years of access to MNC's CbCR information and the ability to request comparable data from other tax authorities globally. Obviously, the effects of this increased visibility on their jurisdictional tax are not publicly known but anecdotal taxpayer evidence suggests that the CbCR data has not led to a huge increase in tax demands, indicating perhaps that there is not as much a problem around the majority of MNC's CIT payments as the public narrative may suggest.

In 2023, the EBTF is delighted to be launching a new edition of this study in conjunction with our annual TTC study, giving a full objective view of MNC's total tax liabilities, and not just focused on the headline CIT numbers. This enables the reader to get behind the numbers, considering the impact of clear business trends, such as where an MNC makes operational losses in a particular year and pays no CIT, yet its contribution to the government exchequer in terms of value added tax, payroll taxes and other duties to name but a few remains strong. I trust that you find this study and its partner publications of value in framing the public tax debate in objective context and I very much hope you join us for the online launch of all three reports on 23 March 2023.

Michael Ludlow
Chair of the EBTF

Contents

Executive summary

1

Country-by-Country Reporting focuses only on corporate income taxes

While TTC provides an overview of all taxes a company bears and collects on behalf of others, CbCR only includes CIT on a cash and accrual basis. CIT is an important tax, but by itself is not reflective of the TTC of businesses. From the CbCR dataset of companies that provided TTC and CbCR data, their total CIT paid was €24.5bn. While looking at the TTC data of the same study participants, it is noteworthy that these companies bore and collected €216.9bn in taxes.

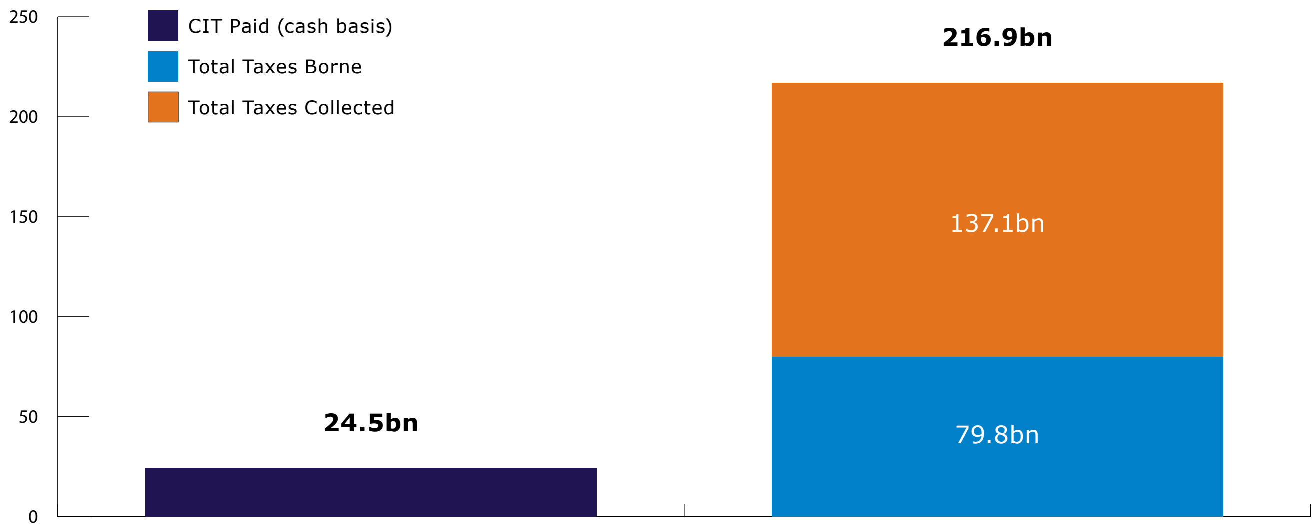
For more information, please refer to section two of this study.

2

Operations in the European Union's list of non-cooperative jurisdictions

A small proportion of the total operations[1] of the 35 companies participating in the TTC and CbCR studies are in jurisdictions that are on the EU's list of non-cooperative jurisdictions. Specifically, only 1.5% of total profits, 1.7% of total revenues, and 1.8% of the workforce were in those jurisdictions.

For more information, please refer to section four of this study.



1 In this context, an 'operation' is understood as the presence within a country which is reportable under the OECD CbCR rules.

3

Public Country-by-Country Reporting and Pillar Two Safe Harbours

Under the recently published OECD Pillar Two rules,[2] CbCR and financial account information can be used as proxies for determining whether tested jurisdictions are likely to have a GloBE Effective Tax Rate (ETR) that is at or above the minimum rate. The use of deconsolidated income taxes from the annual accounts and the profit or loss before tax reported in the CbCR to perform this simplified ETR test is not ideal, but it's a compromise that may reduce the compliance burden for some groups.

In one of the transitional safe harbours, for example, 20.4% of operations would fall within the 'de minimis' threshold (i.e. having revenue below €10m, and profit (loss) before income tax below €1m (including a loss) – that's 230 out of 1,124 operations.

For more information, please refer to section one of this study.

Source: EBTF study participants. Size of the bubbles reflects the number of companies with revenues below €10m and profits below €1m (including a loss) in those countries.

4

Four rates, four different stories

CbC reporting has its limitations and it can be prepared based on different regulatory guidance, i.e. EU pCbCR, national rules implementing CbCR under Action 13 of the OECD Base Erosion Profit Shifting (BEPS), EU Capital Requirements Directive IV (CRD IV) or voluntary frameworks such as those of the Global Reporting Initiative (GRI) and the World Economic Forum's (WEF) International Business Council.

The use of data derived from different reporting obligations enable the calculation of a number of ratios (see next page for those referenced in this study). The multitude of ratios that can be derived from the data can seem daunting at first glance, but they all serve a different purpose:

26.1% ETR

Average Consolidated Accounting ETR in 2021

Based on the consolidated profits and total income tax provision (i.e. comprising current and deferred taxes) of all study participants.

20.8% CTR

Average Cash Tax Rate in 2021

The proportion of CIT paid on a cash basis as per the CbC report in relation to profits also obtained from the CbC report.

38.2% TTR

Average Total Tax Rate (TTR) in 2021

TTR represents total taxes borne (i.e., CIT and all other business taxes) as a proportion of profits before all business taxes. The TTR of the study participants is 38.2%, more than a third of profits.

****.*% GloBE ETR**

Average GloBE ETR in 2021

Impossible to calculate with the available information, as it will require tailored adjustments to the financial accounts. The GloBE ETR would consider the covered taxes as a proportion of the adjusted income per the GloBE rules.

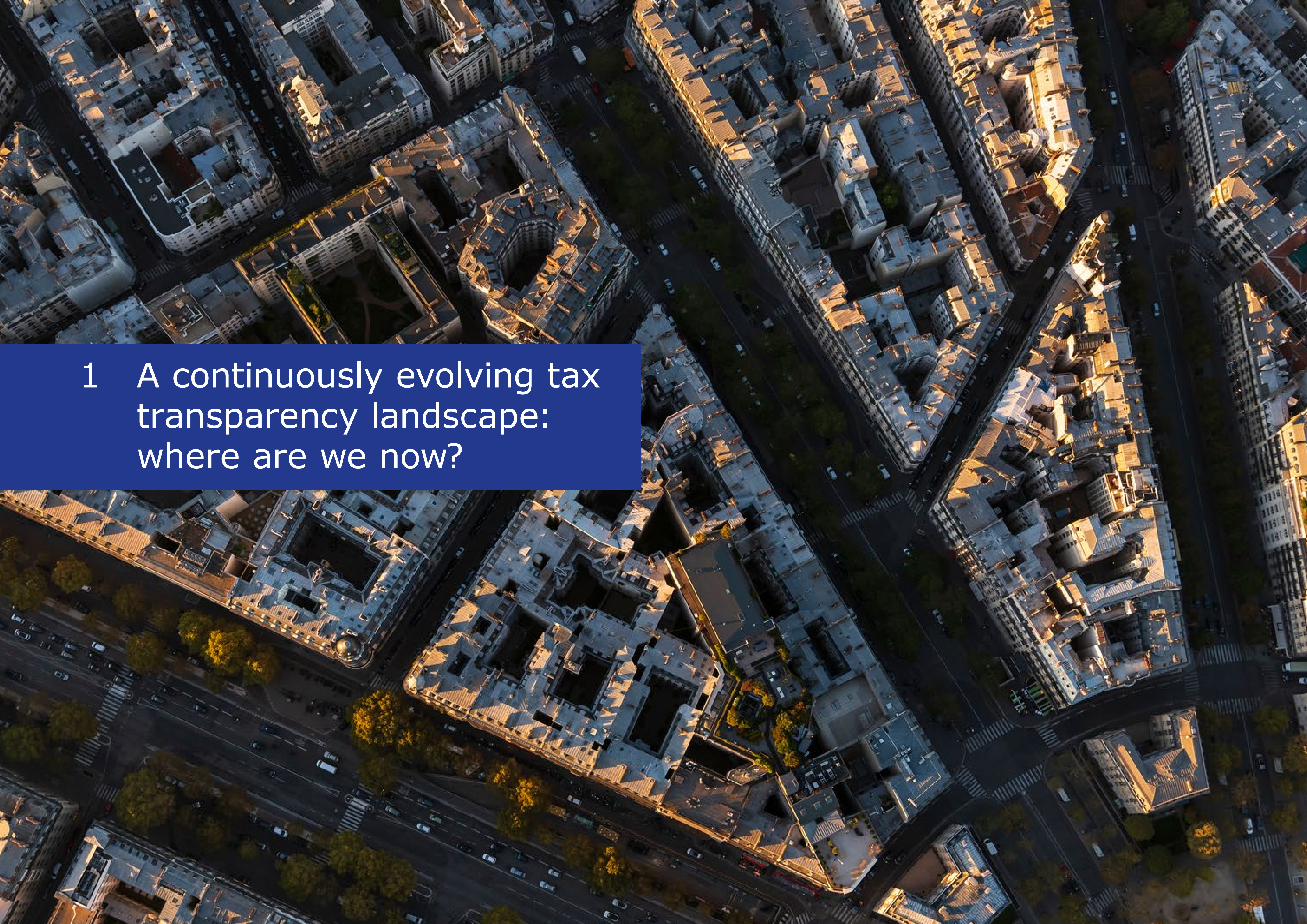
Source: Annual reports, TTC questionnaires and CbCR datasets of the 35 companies providing their data.

2 OECD, 'Safe Harbours and Penalty Relief: Global Anti-Base Erosion Rules (Pillar Two)', available at: https://www.oecd.org/tax/beps/safe-harbours-and-penalty-relief-global-anti-base-erosion-rules-pillar-two.pdf

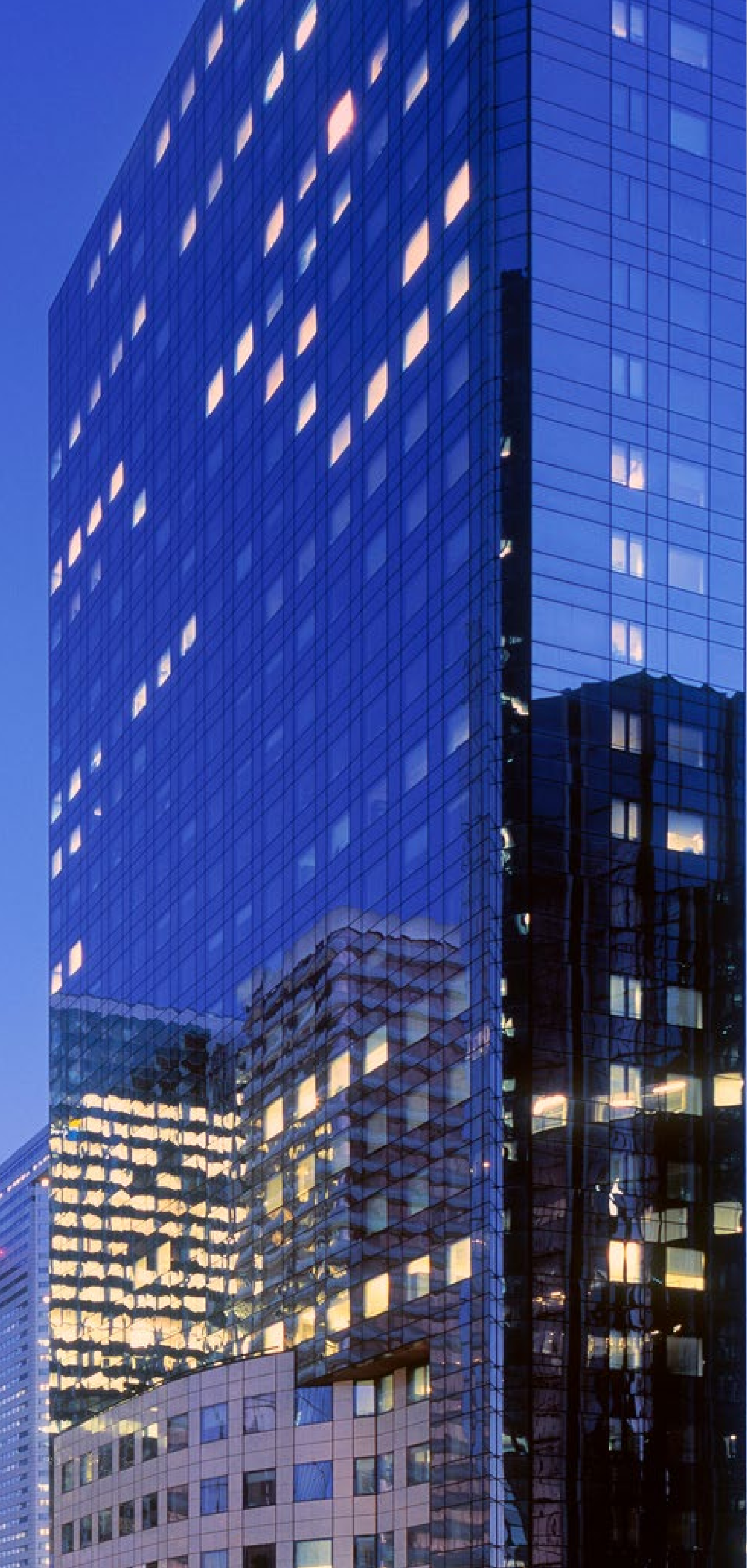
Understanding key tax ratios

A number of ratios can be obtained from the TTC, CbCR and other data sources. The summary chart below provides the definition, formula and purpose of the key tax ratios considered in this study.

Name (Abbreviation)	Consolidated Accounting ETR	Cash Tax Rate (CTR)	Total Tax Rate (TTR)	GloBE Effective Tax Rate (GloBE ETR)
Definition	Total income tax provision (current and deferred taxes) 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, as calculated per the GloBE rules
Formula	ETR = Consolidated Income Taxes / Consolidated 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	Annual accounts	OECD Table 1 CbCR filings	Sustainability reporting, internal data collection schedules and 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 proportion of profits which are accrued for current income tax expenses, deferred taxes and provisions for uncertain tax positions related to CIT. It is often compared to the statutory tax rate and a reconciliation between the two must be given in the accounts.	Demonstrate the percentage of profits which are paid in cash by companies in the form of CIT.	Demonstrate the percentage of profits which are borne by companies 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 study), 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.



1 A continuously evolving tax transparency landscape: where are we now?



Purpose of this study

Since we published the first standalone edition of this study in April 2022, the tax transparency landscape has continued to experience seismic changes internationally with very significant legislative and voluntary reporting developments. The EU's pCbCR Directive is currently being transposed into individual Member States' legislation while the Corporate Sustainability Reporting Directive (CSRD) entered into force on 5 January 2023.[3] The OECD published extensive guidance on its Pillar Two initiative including safe harbour rules, while the International Sustainability Standards Board (ISSB) has confirmed that it will issue its first two finalised frameworks by the end of June with an expectation that the first corporate reports aligned with these frameworks will be issued in 2025.[4]

The days of tax being just a private compliance issue for tax teams are long gone. Nevertheless, it is clear that tax transparency has become a core element of sustainability and is increasingly on the agenda of stakeholders, investors, and the Board.

This study, along with the fourth edition of the EBTF TTC study, is a result of the EBTF's mission: to contribute to the public tax debate by providing tax data that would have been otherwise unavailable, filled with insights and analyses that enable a balanced and holistic dialogue with stakeholders.

Accordingly, the EBTF once again invited the TTC study participants to provide their 2021 figures contained in Table 1 of the CbCR template (for the format of the OECD CbCR template, see Appendix E) for analysis. As a result, permission has been obtained from 11 MNCs to use their confidential data and from 24 companies, which have made their CbCR data publicly available, to use such data in this study. These 35 MNCs (hereinafter referred to as participating companies or study participants) represented 34.2% of CIT and 54.8% of the TTC of the 61 companies participating in the fourth edition of the TTC study, a sufficiently large number to draw meaningful insights.

As with the TTC information, datasets were provided to PwC on a confidential basis with no explanatory narrative. PwC undertook the work to present results in aggregate format only, so the name of participating companies cannot be ascertained. PwC used a bespoke data analytics dashboard to consolidate and interrogate the data. Where company data is quoted, this is based on publicly available data.

3 For more information, please see the European Commission's website at https:// inance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en.

4 Edie, ISSB to launch first two sustainability standards by June, available at https://www.edie.net/issb-to-launch- first-two-sustainability-standards-by-june/

Public Country-by-Country Reporting

Recent developments

After coming into force on 21 December 2021, the EU pCbCR Directive is gradually being transposed into the domestic legislation of individual EU Member States. For an overview of the required disclosures under the EU pCbCR Directive, reference is made to Appendix C.

In September 2022, the Romanian Government introduced the EU pCbCR requirements to national legislation. The legislation requires qualifying Romanian-based MNCs and MNCs with subsidiaries or branches in Romania, irrespective of whether these are EU or non-EU headquartered groups, to publicly disclose required information on a CbC basis. The threshold of the annual consolidated revenue is RON 3.7bn (around €747m) in each of the last two consecutive financial years.

The legislation is effective from 1 January 2023 and applies to financial years beginning on or after 1 January 2023, which is significantly earlier than the 22 June 2024 deadline set by the EU pCbCR Directive. As reporting is required within 12 months of the financial year-end, this development significantly accelerates the CbCR preparation and public disclosure timeline for qualifying companies with operations in Romania.

Germany and the Netherlands have also transposed the EU pCbCR Directive (although not enacted yet), broadly following its text with no significant deviations. It is worth noting that, in Germany, there is a fine of up to €50,000 for incorrect or incomplete preparation of pCbCR and for breaches of the disclosure obligations. Romania has not yet introduced penalties for non-compliance with pCbCR disclosures.

Updates in other countries include:

- **Hungary:** Promulgated in the Official Gazette of Hungary on 24 November 2022, the Hungarian legislation is in-line with the EU pCbCR Directive in terms of general content, publication and accessibility. One of the key differences between the Hungarian legislation and the EU pCbCR Directive, is that the local legislation requires MNCs in scope to explain the reasons behind any significant differences between the income tax accrued and income tax paid.
- **Finland:** The government has indicated that it may implement the EU pCbCR Directive earlier than the 22 June 2024 deadline, with a draft government bill stating that the implementation will take place as soon as possible. Delays in government proceedings mean no official date has yet been announced.
- **Ireland:** The government has announced via the Finance Act 2022 that the EU pCbCR Directive would be implemented in 2023.
- **Sweden:** The government has announced that the EU pCbCR Directive would become effective 22 June 2023 and would apply for the first time for the financial year beginning after 31 May 2024 (i.e., from 1 January 2025 for companies with a calendar year financial year).
- **Spain:** Spain implemented the EU pCbCR Directive and it is applicable as of 22 June 2024.

Public tax transparency in the context of Environmental, Social and Governance matters

Although important, in OECD countries, CIT makes up less than 10% of total government tax receipts.[5]

CIT is also markedly volatile. Profits, upon which it is calculated, fluctuate considerably during times of economic uncertainty. Nevertheless, stakeholders examining companies' tax affairs often solely focus on CIT, and it is the only tax required to be presented in CbCR disclosures under the EU pCbCR Directive and the OECD CbCR template. The global minimum tax rules under Pillar Two also focus on an effective minimum CIT rate, further strengthening the message that the amount of CIT borne by companies is a chief indicator of MNC's approach towards their tax affairs.

That is why, unsurprisingly, the amount of CIT paid is constantly under intense scrutiny. However, there are also a number of global tax transparency developments which take a more holistic view of corporate tax affairs and, rather than focusing solely on CIT, encourage companies to develop a more responsible approach to tax and business as a whole.

GRI, for example, published a tax standard (GRI 207) which includes four areas of disclosures. One of these areas includes CbCR data, and gives MNCs the possibility to opt for publishing tax data beyond CIT. The other three areas are management approach disclosures looking at the company's approach to tax, tax governance, control and risk management, and stakeholder engagement and management concerns related to tax.

The GRI tax standard is an example of the wider integration of tax with the broader ESG topics.

Similarly, WEF's Stakeholder Capitalism Metrics are designed to provide a common core set of ESG metrics and disclosures of non-financial information. Tax is included in the metrics in the form of a disclosure of total taxes borne, which is an element of the TTC methodology. There is an optional expanded set of metrics under which the taxes collected element of TTC can be disclosed and geographical analysis of the data can be provided. WEF's inclusion of a TTC metric under the Prosperity Pillar, rather than another version of the OECD CbCR template, highlights that TTC is a comprehensive and representative way to measure the tax contributions made by companies to the societies and economies in which they operate.

Concerning the regulatory environment, the EU's CSRD, which came into force on 5 January 2023, expands the scope of existing reporting requirements under the Non-Financial Reporting Directive (NFRD) first introduced in 2014.[6]

The purpose of the NFRD and the expanded scope under CSRD is to allow stakeholders to evaluate companies on non-financial performance metrics and thereby encourage companies to develop a more responsible approach to business. The requirement is for companies to report on ESG metrics, such as governance and policy, which are material for the organisation and its stakeholders. Tax is expected to be included in the areas reported on given

5 9.6%, OECD, Corporate Tax Statistics: Fourth Edition, available at https://www.oecd.org/tax/tax-policy/corporate-tax-statistics-fourth-edition.pdf

6 EU Directive 2014/95, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32014L0095&from=EN

its materiality and the growing interest stakeholders and investors have in ensuring that companies abide by responsible tax principles.

The International Accounting Standards Board's (IASB) ISSB initiative, expected to issue its first two finalised frameworks by the end of June, further highlights the rising importance of non-financial information to stakeholders. The ISSB was launched in November 2021 to harmonise the various existing ESG standards and elevate their status alongside established accounting standards disclosing financial information. The ISSB establishes a new global baseline for ESG reporting and places a marked expectation on companies to map out which ESG elements are material for their business. For the reasons mentioned above, tax transparency is expected to occupy a high position on the ESG agenda.

Other existing voluntary ESG frameworks, which the ISSB will draw on as part of its efforts of harmonisation, also emphasise the importance of tax transparency through asking companies to report on multiple dimensions of their tax affairs rather than solely focusing on CIT.

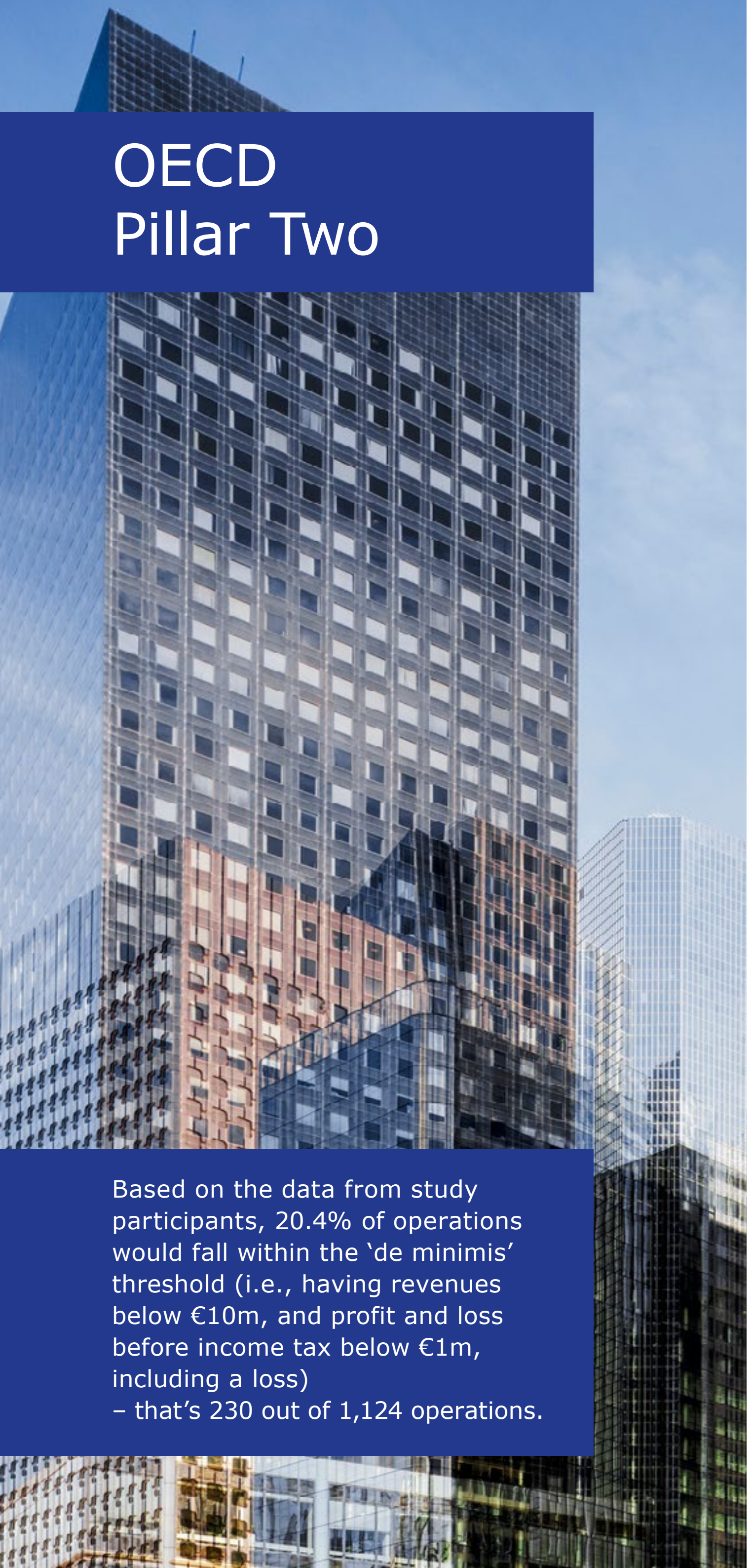
All the above-mentioned reporting frameworks, whether mandated like CSRD or voluntary like the ISSB,[7] GRI and WEF initiatives have the common theme of looking at the tax affairs and contributions of companies in a more comprehensive way and taking non-financial information, such as tax governance and risk management elements, into account. Such information, along with TTC disclosures, can provide more holistic and meaningful reports on tax to stakeholders and allow companies to provide reasoned explanations in connection with their tax affairs.

CbCR on its own (based on the OECD CbCR template), providing information only on CIT, is therefore unlikely to give a comprehensive picture to stakeholders. Misunderstandings could arise especially given the possible interpretational difficulties both when data is being consolidated by companies and being looked at by stakeholders without any accompanying narrative. As public CbCR becomes mandatory, additional disclosures should be considered in the context of the company's overall tax strategy, tax governance and ESG objectives.

Whether a company follows an established voluntary ESG reporting framework to guide its disclosures, or discloses based on its own framework, additional voluntary tax disclosures help companies tell the whole story around tax and thereby reduce the risk of misinterpretation by stakeholders while presenting a consistent and straightforward narrative of the business as a whole.

In the sections that follow, we will cover some of the key points mentioned above in detail: section two focuses on exploring the interaction between CbCR and TTC data; sections three and four look at the challenges in relation to interpreting CbCR data (based on the OECD CbCR templates), commenting on relevant common questions and pitfalls.

7 The UK has confirmed that the ISSB will be mandatory. Therefore, the ISSB is voluntary to the extent that a government says otherwise.



OECD Pillar Two

Based on the data from study participants, 20.4% of operations would fall within the 'de minimis' threshold (i.e., having revenues below €10m, and profit and loss before income tax below €1m, including a loss)
– that's 230 out of 1,124 operations.

Recent developments

In parallel 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.[8] As set out in the 8 October 2021 Statement by the OECD/G20, the Model Rules are the first of three sets of guidance: the Model Rules; an explanatory Commentary released on 14 March 2022; and a more detailed implementation package, released on 20 December 2022.

These Model Rules cover the Income Inclusion Rule (IIR) and Undertaxed Profits Rule (UTPR),[9] collectively referred to as GloBE.

A number of jurisdictions, including the UK and the EU, have published proposals for the domestic enactment of Pillar Two, with commencement from 2024. Some jurisdictions such as Singapore and Hong Kong are planning to implement the GloBE rules from 2025. In the United States of America (USA), the passage of the Inflation Reduction Act,[10] a landmark tax and spending package that doesn't align with the OECD's BEPS Pillar Two framework, raises questions about the latter's implementation in the near future.

In addition 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). The STTR is aimed at preventing companies from avoiding tax on their profit earned in emerging economies 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. The wording of the STTR, together with a multilateral instrument for its implementation, is expected to be made available later in 2023.

How CbCR data will be central in the OECD Pillar Two safe harbours

The OECD released the details of the Pillar Two safe harbours provisions on 20 December 2022. The safe harbours involve less extensive calculations, draw on a smaller pool of data than the fully fledged GloBE calculations, and utilise data that is already available, primarily CbCR data, and not accounting data. Broadly, the transitional safe harbour applies if the CbC report is 'qualifying'[11] and one of three conditions is met:

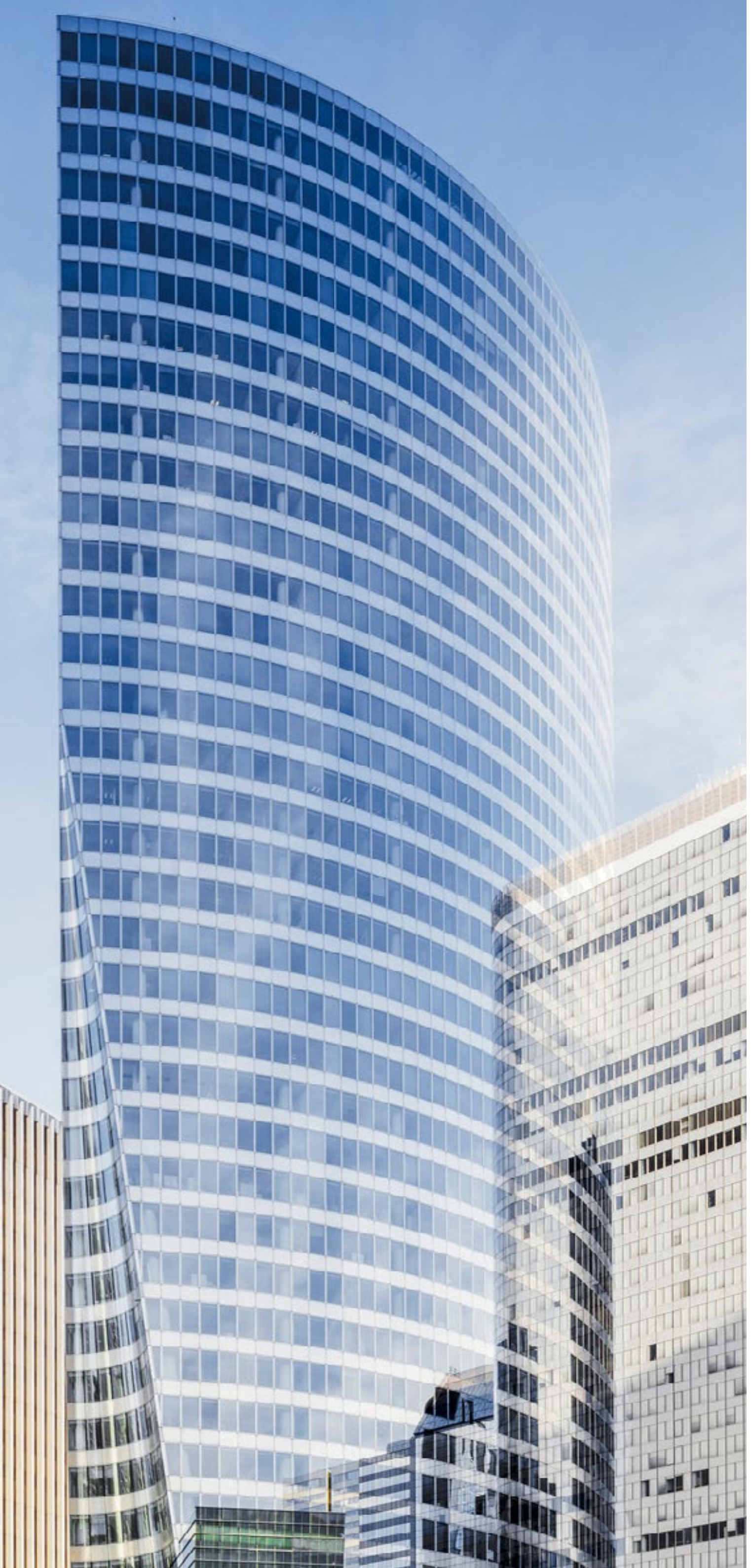
1. **De minimis test**: The jurisdiction has CbCR revenue of less than €10m and a CbCR profit and loss before income tax of less than EUR1m (including a loss).
2. **Effective tax rate test**: The Simplified ETR for a jurisdiction is at least 15% for 2024 (16%for 2025, 17% for 2026). The Simplified ETR is calculated as the Simplified Covered Taxes (income tax expense per the financial accounts, adjusted for non Covered Taxes and uncertain tax positions) divided by profit and loss before income tax from the CbCR.

8 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

9 Originally known as the Undertaxed Payments Rule.

10 US Congress, Public Law n. 117-169, available at https://www.congress.gov/bill/117th-congress/house-bill/5376/text

11 For more information on safe harbours, please refer to PwC's Tax Insights, available at https://www.pwc.com/gx/en/tax/newsletters/tax-policy-bulletin/assets/pwc-oecd-releases-p2-guidance-on-safe-harbours-and-penalty-relief.pdf



3. **Routine profits test**: the profit and loss before income tax from the CbCR is smaller or equal to the Substance Based Income Exclusion calculated according to the Model Rules. This test will also be met for a jurisdiction where it has a loss per the CbCR.

The transitional safe harbour above sets out three routes to a nil top-up tax position in a specific jurisdiction for the three years of its application (financial years 2024-2026).

While the safe harbours may reduce the immediate burden of compliance for MNCs, not all jurisdictions may benefit from the safe harbour provisions. One-off transactions or unexpected results can push a territory outside the safe harbour conditions, and the increasing rates from 15% in 2024 to 17% in 2026 could exclude a jurisdiction from the safe harbour.

Based on the data from study participants, 20.4% of operations would fall within the 'de minimis' threshold (i.e., having revenues below €10m, and profit and loss before income tax below €1m, including a loss) – that's 230 out of 1,124 operations.[12]

The transitional safe harbour rules are designed to provide some relief to MNCs during the initial years from a full-scope GloBE compliance obligations for certain low-risk jurisdictions, but that does not mean, however, that MNCs should be delaying the implementation of changes to their data gathering and compliance processes.

Not all jurisdictions would benefit from the safe harbour and a full data set and reporting could be required for other jurisdictions. As stated above, the current safe harbour provisions are transitional, and only the framework has been developed by the OECD for permanent safe harbours.

Furthermore, the safe harbour provisions feature the 'once out, always out' rule, whereby a jurisdiction not meeting any of the safe harbour provisions in one period cannot benefit from the transitional safe harbour in a subsequent period.

CbCR tax data is insufficient for what is needed for the safe harbours and GloBE calculations and compliance. Nonetheless, because of the transitional safe harbour rules, CbCR will be central to determining whether top-up taxes arise. The role of CbCR will naturally transition beyond being a simple risk assessment tool for the tax authorities (as it was originally envisaged when introduced by the OECD) and, as a consequence, tax authorities may want to focus more substantially on it.

Implementation of Pillar Two in domestic laws, if followed by the publication of the ETR as calculated under the Model Rules,[13] as has been announced in 2021 by the European Commission, would effectively mean that MNCs (at least those with EU presence) will be faced with three sets of annual (mandatory) disclosures on their taxes and ETRs: financial statements, pCbCR, and GloBE ETRs (if not publicly, at least internally and in the Pillar Two GloBE

12 The safe harbour calculation takes into account only countries where revenues were reported (i.e., which were operational). Data was received for 1,308 individual country operations in total, but only 1,124 had revenues reported.

13 On 18 May 2021, the European Commission published the anticipated Communication on Business Taxation for the 21st Century (available at https://ec.eu-ropa.eu/info/law/better-regulation/). This document sets out its short-term and long-term vision to provide a fair and sustainable (EU) business tax system and support the recovery. An intention to make public disclosures of the GloBE ETRs is included

information returns). These developments raise the question of possible interaction of these various reporting systems with each other and with TTC and the need to understand key tax ratios and their purpose (see page 8 of this report).

2 Total Tax Contribution and Country-by-Country Reporting

Interaction between the two sources of information

Unlike CbCR based on the OECD CbCR template, which focuses on CIT, TTC reporting includes all the taxes that a company bears and collects. The following paragraphs 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 MNCs' tax contributions. This is particularly useful during recessions and financial crises, when public revenue generation from CIT is disproportionately affected.

Table 1 shows global TTC and CbCR data for the 35 participating companies. A breakdown of the figures between global and Europe is included in brackets, where appropriate. Table 2 does the same but in relation to the 20 companies that participated in last year's study and again this year (like-for-like comparison). Given that the study participants nearly doubled compared to last year, any references in the study to 2020 figures beyond Table 2 are for illustrative purposes only and are not on a like-for-like basis.

Findings

Table 1 – TTC and CbCR data comparison (not containing like-for-like basis data)

Table 1 OECD CbCR Heading	CbCR Total	Related TTC data from participating companies
CIT (cash basis)	€24.5bn (€13.8bn) (2020: €13.3bn, €4.5bn)	In addition to CIT, companies bear and collect many other taxes - Global TTC: €216.9bn (2020: €116.9bn), Europe TTC: €133.8bn (2020: €79.8bn)
Number of employees	2.0m (989k) (2020: 1.2m, 0.6m)	In addition to paying wages and salaries, companies bear and collect people taxes - Global: €41.1bn (2020: €18.1bn), Europe: €28.8bn (2020: €14.3bn)
Tangible assets	€1,676.4bn (€1,105.9bn) (2020: €310.4bn, €203.6bn)	Companies bear and collect property taxes on tangible and intangible assets - Global: €4.4bn (2020: €2.5bn), Europe: €2.7bn (2020: €2.4bn)
Third-party revenues	€1,076.1bn (€481.7bn) (2020: €554.9bn, €286.5bn)	Companies bear and collect product taxes - Global: €58.7bn (2020: €35.9bn), Europe: €38.8bn (2020: €23.6bn) on third-party revenues

Table 2 – TTC and CbCR data comparison (containing like-for-like basis data)

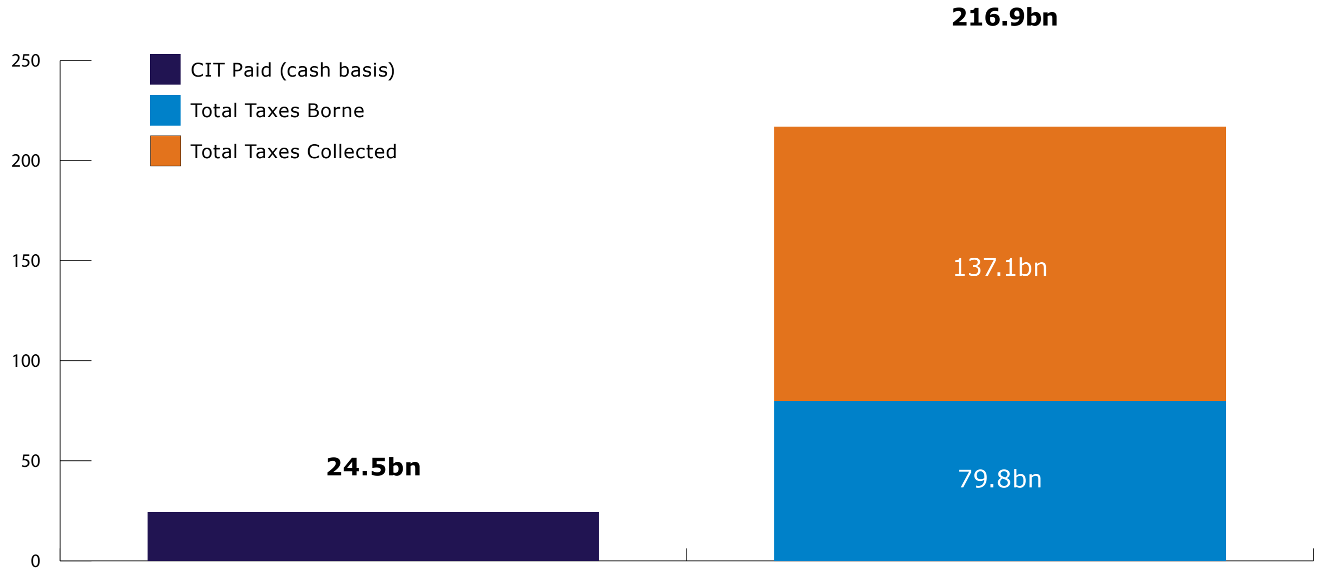
Table 1 OECD CbCR Heading	CbCR Total	Related TTC data from participating companies
CIT (cash basis)	€13.2bn (€6.6bn) (2020: €12.9bn, €4.1bn)	In addition to CIT, companies bear and collect many other taxes - Global TTC: €133.5bn (2020: €110.5bn), Europe TTC: €73.0bn (2020: €73.9bn)
Number of employees	949k (375k) (2020: 839k, 385k)	In addition to paying wages and salaries, companies bear and collect people taxes - Global: €22.6bn (2020: €16.0bn), Europe: €13.1bn (2020: €12.4bn)
Tangible assets	€598.8bn (€205.5bn) (2020: €285.2bn, €182.5bn)	Companies bear and collect property taxes on tangible and intangible assets - Global: €3.5bn (2020: €1.7bn), Europe: €1.5bn (2020: €1.5bn)
Third-party revenues	€851.2 (€325.7bn) (2020: €548.8bn, €281.9bn)	Companies bear and collect product taxes - Global: €34.8bn (2020: €33.0bn), Europe: €17.7bn (2020: €20.8bn) on third-party revenues

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 €24.5bn (2020: €13.3bn) in the same countries that TTC data was provided. For this same group, total taxes borne corresponded to €79.8bn (2020: €37.9bn), total taxes collected corresponded to €137.1bn (2020: €79.0bn) and their TTC amounted to €216.9bn (2020: 116.9bn).

For every €1 of CIT on a cash basis, there is an additional €0.98 (2020: €0.95) of other business taxes borne and €3.40 (2020: €4.07) in other taxes collected globally which are not reported in OECD CbCR template filings. In Europe, this ratio is €1.32 (2020: €1.65) and €4.53 (2020: €7.55), respectively. Other taxes borne and collected also represent a cost to the company and significantly contribute to public finances, yet they are not captured by the OECD CbCR template.

Figure 1 – CIT paid on a cash basis (OECD CbCR templates of participating companies) versus TTC data (EBTF TTC study)



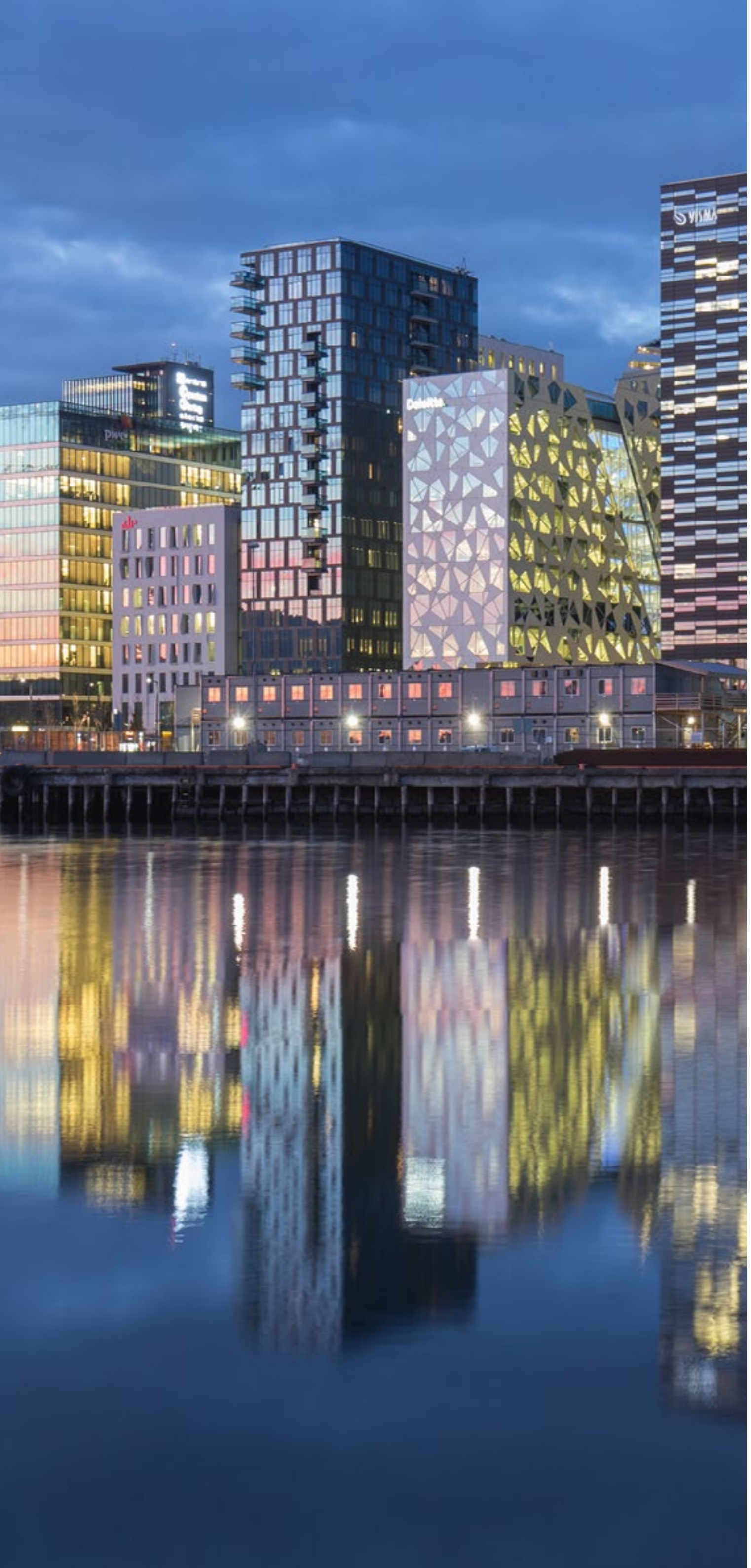
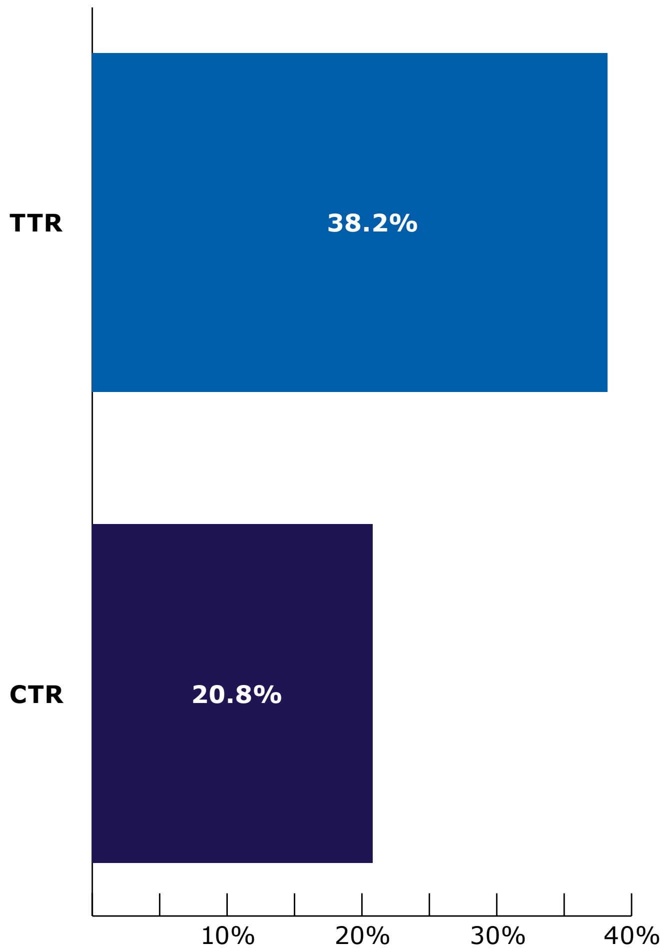


Figure 2 – CTR versus TTR on a like-for-like basis



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 2021 is 20.8% (2020: 28.9%), which is below the worldwide average statutory CIT rate among 180 jurisdictions (23.54%).[14] Notably, participating companies report revenues in 170 distinct jurisdictions. The TTR represents the proportion of taxes borne in relation to profits before all taxes borne. The TTR of the participating companies corresponds to 38.2% on a like-for-like basis.

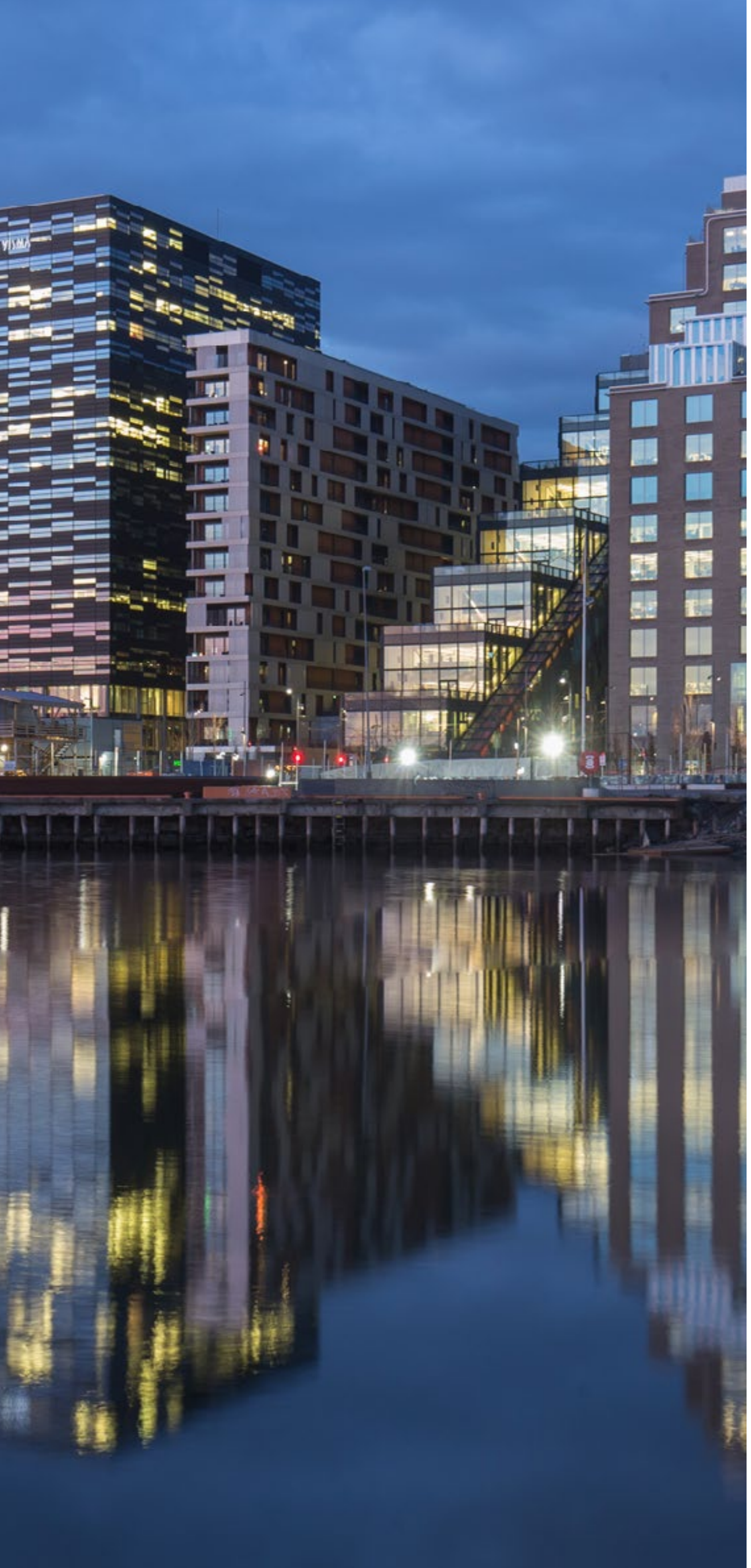
As stated above, CTR shows only part of the picture whereas TTR provides a full scope and shows what proportion of profits are paid over to governments in the form of business taxes by the companies. For the calculation of the TTR, total taxes borne would be needed, rather than only CIT as currently presented in CbCR templates.

People taxes and number of employees

The OECD CbCR template highlights profits, number of employees and CIT for each jurisdiction where MNCs operate. If no further data or narrative on the employment figures is provided, it is not possible to gain an understanding of the taxes contributed to public finances as a result of having employees in a certain jurisdiction.

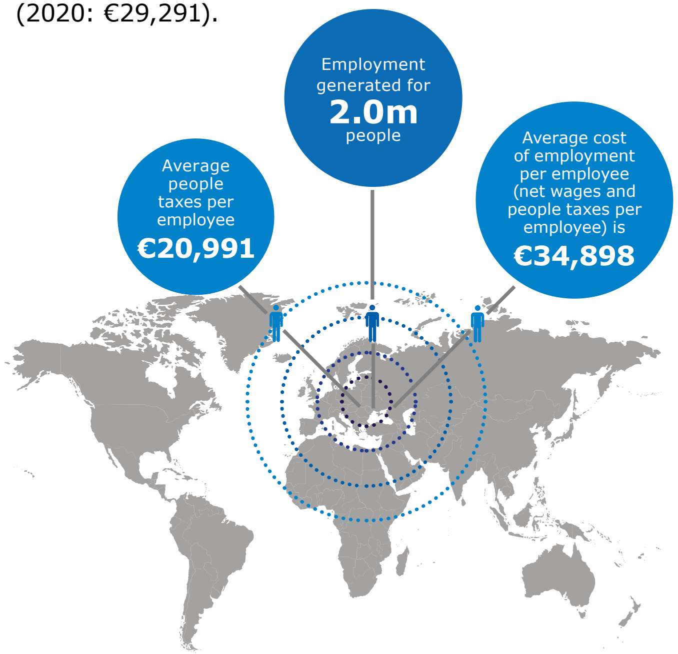
Total employment taxes paid by the 35 (2020: 20) participating companies amounted to €41.1bn (2020: €18.1bn), comprising €11.2bn (2020: €6.4bn) in taxes borne and €29.9bn (2020: €11.7bn) in taxes collected (in Europe, these figures were €28.9bn (2020: €14.3bn), €8.4bn (2020: €5bn)

14 Tax Foundation, Corporate Income Tax Rates around the World, 2021. Available at: https://taxfoundation.org/corporate-tax-rates-by-country-2021/



and €20.5bn (2020: €9.3bn), respectively). The participating companies provided employment for 2.0m (2020: 1.2m) people, paying on average €20,991 (2020: €15,685) in employment taxes per employee. Of this total, €5,732 (2020: €5,557) corresponds to employment taxes borne and €15,259 (2020: €10,129) to employment taxes collected.

The average cost of employment[15] per employee for the participating companies is €34,898 (2020: €29,291).



Property taxes and tangible assets

The CbCR filings of the participating companies show total tangible assets amounting to €1,676.4bn (2020: €310.4bn). For this same population, €4.4bn (2020: €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 facilitates an understanding of the tax contributions made by companies as a result of using, transferring and owning property.

Whilst the OECD CbCR template alone does not provide information 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 0.3% (2020: 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 €1,076.1bn (2020: €554.9bn), with total taxes and duties borne in relation to their own consumption of goods and services amounting to €13.6bn (2020: €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 €45.1bn (2020: €28.9bn), €58.7bn (2020: €36.9bn) collectively.

This shows that 5.5% (2020: 6.5%) of total third-party revenues were paid either as a product tax borne or collected in 2021. As the OECD CbCR template does not include information on product taxes next to third party revenues, TTC data helps to foster an understanding of the tax contributions generated by these revenues.

15 The average cost of employment is obtained from the sum of net wages, people taxes borne and collected per employee. For more information, please refer to the people taxes section of the EBTF TTC study available at https://ebtforum.org/ttc/

3 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 analysis is only just starting. In November 2019, the OECD published a paper summarising some common errors made by MNCs in preparing their CbCR filings.[16] It is expected that 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 should be undertaken in order to address the limitations of CbCR data.[17] In the meantime, as CbCR is a framework and not an accounting standard like the IFRS, it is challenging to compare information and ultimately draw constructive conclusions about the tax affairs of MNCs 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 templates alone should not be used to draw conclusions around the tax affairs of MNCs. A careful analysis is required regarding the comparison of the CbC data between MNCs as their respective preparers could have adopted differing positions of what figures to include, raising concerns around the quality and comparability of the data.[18]

No narrative in respect of the OECD CbCR template filings of the 35 (2020:20) MNCs 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.

16 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

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

18 For a distinction between the CbCR requirements of *inter alia* the OECD and the EU pCbCR Directive, please refer to https://www.pwc.co.uk/tax/assets/pdf/tax-transparency-in-an-esg-era-report-2022.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 revenue, the OECD CbCR template requires data to be aggregated for all entities in each country.[19] 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 MNCs amounts to €2.0tn (2020: €1.3tn). However, if only non-related party revenues are considered, this amount is reduced to €1.2tn (2020: €731.7bn). This means that, of the total revenues from related parties, totalling €635.5bn[20] (2020: €514.8bn), corresponded to 54.1% (2020: 70.4%) of non-related party revenues for the 35 (2020: 20) 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 MNC 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 manufacturer, distributor or provides support functions to the wider group. To thoroughly understand the revenues generated and the substance of the MNC's operations, users of the OECD CbCR template filings must scrutinise other documentation (for example, the transfer pricing master and local files).

19 "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.

20 Related and third-party revenues do not sum to the total revenue figure of €2tn as some companies did not provide the breakdown between total and third-party revenues. The total revenue figures thus includes revenue which is not included in the related nor in the third-party revenue figure.

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 €2.3tn (2020: €1.3tn) and €990.0bn (€864.7bn), respectively. However, when reviewing the information disclosed in the annual accounts of the 35 (2020: 20) participating companies, it was found that the consolidated figures actually are €351.9bn (2020: €116.6bn) and €863.4bn (2020: €293.3bn) respectively.

Particularly if an MNC 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 35 (2020: 20) participating companies shows €1.7tn (2020: €418.7bn) in tangible assets. Tangible assets disclosed in the annual accounts of the participating companies is €1.3tn (2020: €424.5bn).

The difference is largely represented by intangible assets. These are not reported in the OECD CbCR template. In an increasingly digital economy, where intangible assets are huge drivers of value for companies, this omission does not give the full picture.

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 2021, the 35 (2020: 20) participating companies employed 2.1m (2020: 1.3m) people,[21] 1.4m (2020: 836k) being located in developed economies and 701k (2020: 469k) in emerging economies.

The revenue per employee varied significantly between the 35 participating companies. While the average revenue per employee was €1.0m (2020: €1.0m), the revenue per employee based on the consolidated accounts was €668k and the interquartile range was €1.2m, showing a broad range, reflecting the different business models adopted by globally operating MNCs.

According to their annual accounts, the 35 participating companies employed a total of 2.4m people. This figure is significantly closer to the number reported in CbCR filings than others mentioned earlier in this section, which is due to the number of employees being a more straightforward measure with less interpretational difficulties.[22]

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 MNC 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[23] or payments arising from tax audits.

What does the data show?

According to Table 1 of the OECD CbCR filings of the 35 participating companies, CIT paid amounted to €27.6bn.[24] Dividing by the global profits before taxes (€186.5bn), a CTR of 14.8% is obtained.

21 Out of this amount, €2.0m relates to countries for which TTC data was also available. As highlighted in the table contained in section 2 of this study.

22 Although discrepancies can arise due to the use of full-time equivalent figures, number at year-end, average throughout the year, etc.

23 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 differences) of a determined entity or group of entities.

24 Out of this amount, €24.5m relates to countries for which TTC data was also available. As highlighted in the table contained in section 2 of this study, the CTR for countries where TTC and CbCR data were available at the same time is 20.8%.

The global average statutory CIT rate is 23.5%.[25]

The annual accounts of the 35 companies were examined to analyse this number in more detail. By taking into consideration amounts such as prior year adjustments,[26] deferred taxation and payments arising from tax audits, the average ETR corresponds to 26.11% (2020: 23.1%).

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[27] in profits disclosed in the OECD CbCR template but could be exempt from taxation. Additionally, the profits included in the OECD CbCR template can vary significantly from the taxable income driving taxes paid and accrued in each country.

What does the data show?

According to the OECD CbCR template filings of the 35 (2020: 20) participating companies, global profits before tax amounted to €186.5bn (2020: €6.2bn). Out of this total, €120.1bn (2020: -€0.4bn) arose in developed economies an €61.1bn (2020: -€5.8bn) in emerging economies. A further €5.3bn were perceived in stateless and undetermined territories. In the CIT paid and accrued section (above), tax ratios in relation to profits are discussed in more detail.

25 Tax Foundation, Corporate Income Tax Rates around the World, 2021, available at https://taxfoundation.org/corporate-tax-rates-by-country-2021/.

26 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.

27 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)

4 Some common questions on Country-by-Country Reporting data

One of the reasons for introducing mandatory public CbCR was to enable greater public scrutiny over where the profits of large MNCs are located,[28] and how much CIT is paid on those profits in those jurisdictions. Questions around why a group operates in low-tax jurisdictions, or why some of its profits appear not to have been taxed are under constant scrutiny, and the public CbCR data is expected to be used to answer questions such as:

- The group has operations in non-cooperative jurisdictions: why?
- There appear to be profits which have not been taxed: why?

The analysis below aims to provide answers to these questions based on the information collected from the participating companies.

Operations in non-cooperative jurisdictions

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.[29]

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 February 2023,[30] sixteen jurisdictions are included in the list of non-cooperative jurisdictions: American Samoa, Anguilla, Bahamas, British Virgin Islands, Costa Rica, Fiji, Guam, Marshall Islands, Palau, Panama, Russia, Samoa, Trinidad and Tobago, Turks and Caicos Islands, US Virgin Islands and Vanuatu.

The OECD CbCR templates of the 35 (2020: 20) participating companies consisted of 1,308 (2020: 634) individual country operations. Out of the 1,308 (2020: 634) country operations, 37 (2020: 12) were in ten (2020: six) countries on the EU list. There can be a number of valid and non-tax reasons why MNCs have operations in these jurisdictions, varying from commercial operations to structural legacy. It is worth noting that, at the time of writing the first edition of this study,[31] there were only nine jurisdictions on the list. In its latest February 2023 update, the EU nearly doubled the number of jurisdictions on its non-cooperative list. Russia has also been added to the list, which increased the number of operations. 15 out of the 37 operations in non-cooperative jurisdictions were in Russia.

28 EC, Introducing public country-by-country reporting for multinational enterprises: Questions & Answers, Question 9, available at https://ec.europa.eu/commission/presscorner/detail/fr/MEMO_16_1351.

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

30 EU Council, Taxation: EU list of non-cooperative jurisdictions, available at https://www.consilium.europa.eu/en/policies/eu-list-of-non-cooperative-jurisdictions/. The nine jurisdictions on the list before the latest update were: American Samoa, Fiji, Guam, Palau, Panama, Samoa, Trinidad and Tobago, US Virgin Islands and Vanuatu.

31 EBTF, 'Tax Transparency & Public Country-by-Country Reporting: a study of the largest companies headquartered in Europe', available at https://ebtforum.org/cbcr/.

The increase in the number of operations in non-cooperative jurisdictions and consequently the slightly higher figures in the table below result from the significant increase in the number of participating companies as well as the increase in the number of jurisdictions on the EU list, particularly after the addition of Russia to the list.

The table below shows the aggregate data for the operations of the 35 (2020: 20) participating companies in the ten (2020: six) countries on the EU non-cooperative jurisdictions list in the data provided, namely the Bahamas, British Virgin Islands, Costa Rica, Fiji, Guam, Panama, Russia, Samoa and Trinidad and Tobago and the US Virgin Islands. When considered in the context of global operations, only a very small proportion of total transactions of the 35 study participants are conducted in countries contained in the EU list.

Metrics (in €bn)	All countries	Bahamas, British Virgin Islands, Costa Rica, Fiji, Guam, Panama, Russia, Samoa, Trinidad and Tobago, US Virgin Islands	% in relation to total
Stated Capital	2,304.3 (2020: 1,324.9)	4.6 (2020: 1.5)	0.2% (2020: 0.1%)
Tangible Assets	1,734.5 (2020: 418.7)	13.9 (2020: 3.5)	0.8% (2020: 0.8%)
Accumulated Earnings	989.9 (2020: 864.7)	4.1 (2020: 0.4)	0.4% (2020: 0.0%)
Related-Party Revenues	635.5 (2020: 514.8)	15.9 (2020: 0.9)	2.5% (2020: 0.2%)
Third-Party Revenues	1,174.9 (2020: 731.7)	18.3 (2020: 4.1)	1.6% (2020: 0.6%)
Total Revenues	2,032.0 (2020: 1,246.5)	34.5 (2020: 5.0)	1.7% (2020: 0.4%)
Profit Before Tax	186.5 (2020: 41.7)	2.8 (2020: 0.3)	1.5% (2020: 0.8%)
CIT Paid	27.6 (2020: 16.3)	0.5 (2020: 0.1)	1.8% (2020: 0.6%)
CIT Accrued	28.9 (2020: 13.4)	0.4 (2020: 0.1)	1.4% (2020: 0.7%)
Number of Employees	2.1m (2020: 1.3m)	37.4K (3.4K)	1.8% (2020: 0.3%)

Non-taxation of profits

Individual company data shows that ratios of cash tax paid to profit ranged from -309.3% (2020: -6,772.9%) to 72.5% (2020: 777.7%).[32] There were eleven (2020: seven) countries[33] where participating companies made profits but no CIT was paid on those profits of €9.4bn (2020: €641.3m).

The table below shows the aggregate data for these eleven countries in relation to the total.

Metrics (in €bn)	All countries	Countries where no CIT is paid	% in relation to total
Stated Capital	2,304.3 (2020: 1,324.9)	16.4 (2020: 0.1)	0.7% (2020: 0.0%)
Tangible Assets	1,734.5 (2020: 418.7)	62.5 (2020: 0.1)	3.6% (2020: 0.0%)
Accumulated Earnings	989.9 (2020: 864.7)	-7.3 (2020: 0.1)	-0.7% (2020: 0.0%)
Related-Party Revenues	635.5 (2020: 514.8)	14.0 (2020: 9.6)	2.2% (2020: 1.9%)
Third-Party Revenues	1,174.9 (2020: 731.7)	26.8 (2020: 4.3)	2.3% (2020: 0.6%)
Total Revenues	2,032.0 (2020: 1,246.5	45.2 (2020: 13.9)	2.2% (2020: 1.1%)
Profit Before Tax	186.5 (2020: 41.7)	9.4 (2020: 0.6)	4.9% (2020: 1.6%)
CIT Paid	27.6 (2020: 16.3)	0	0.0%
CIT Accrued	28.9 (2020: 13.4)	0.3 (2020: 0.0001)	0.9% (2020: 0.0%)
Number of Employees	2.1m (2020: 1.3m)	13K (2020: 11.8K)	0.6% (2020: 0.1%)

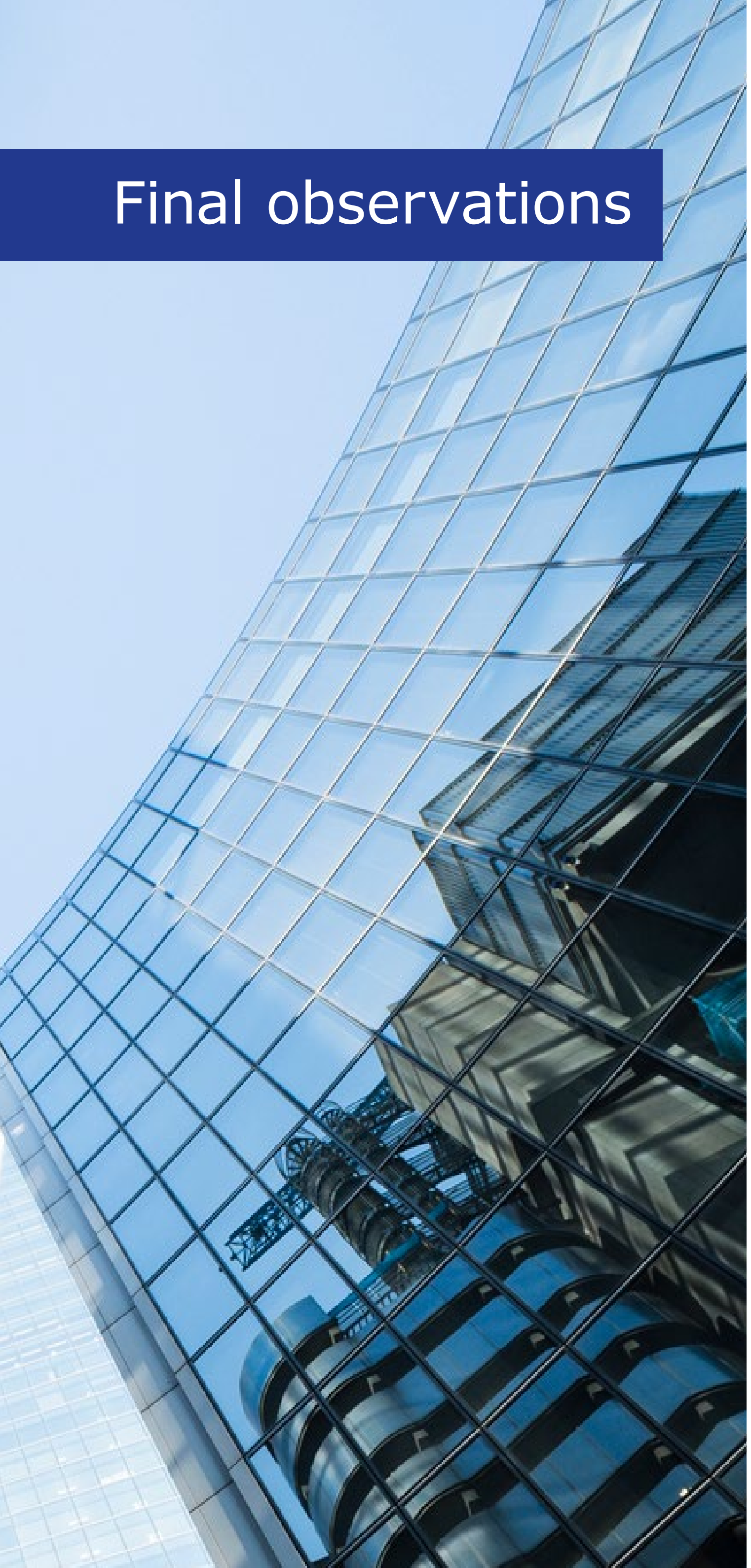
Profits are calculated by deducting costs from revenues. Profit before tax reflects the starting point of a CIT calculation and needs to be adjusted in accordance with the tax legislation in effect in each country. For this reason, the amount obtained by multiplying total profits by the statutory rate 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 & development credits and decarbonisation incentives. Tax incentives reduce the tax paid but not the accounting profit.
- **Timing differences**: sometimes, accounting and tax legislation give a distinct treatment to a certain item, requiring that item to be expensed at different times, giving rise to a temporary difference between the tax and book value of an asset or liability. Such difference impacts taxable profits, causing CIT payments to be done earlier (generating deferred tax assets) or later (generating deferred tax liabilities).

Given the above, without further information it is difficult to adequately explain why there were no CIT paid in the eleven countries mentioned at the beginning of this section, highlighting, once again, the limitation of the OECD CbCR template filings.

32 Median: 19.6%; Average: 7.6%. Calculated based on CIT paid. Please note that CIT could have been accrued but not paid in certain countries.

33 Bahamas, Bahrain, Bermuda, British Virgin Islands, Cayman Islands, Channel Islands, Isle of Man, Guernsey, Jersey, UAE and Vanuatu.



Final observations

Tax is by nature a complicated subject and, as MNCs' OECD CbCR filings are gradually becoming public due for instance to the EU pCbCR Directive, ensuring the prevention of drawing of incorrect or insufficient conclusions will become increasingly important. This is because, the OECD CbCR template offers a reduced amount of information that may be challenging to comprehend and analyse separately. Without the proper supplemental data or a methodology akin to accounting standards, there is a chance that the OECD CbCR template might not necessarily make a fair contribution to the public tax discussion.

This is particularly important in the context of two key developments. First, the ever-evolving relationship between tax and ESG. The public focus has traditionally been on public tax disclosure of the data included in the OECD CbCR template filings, as a means to gain more insights in the tax affairs of MNCs. However, stakeholders increasingly wish to have a comprehensive view of the business and its connection with responsible tax behaviour. This is also reflected in different legislative and voluntary initiatives in the ESG sphere, ranging from the GRI and WEF to the EU's CSRD and the ISSB.

Second, the increasing relevance of the OECD CbCR data in the context of compliance with Pillar Two. The use of CbCR data for the purposes of the transitional safe harbour rule for Pillar Two will demand careful consideration by MNCs. The OECD CbCR tax data is insufficient for all the safe harbour GloBE calculations and compliance. Nonetheless, because of the transitional safe harbour rules, it will be central to determining whether top-up taxes arise. The role of the OECD CbCR template will naturally transition beyond being a simple risk assessment tool and, as a consequence, tax authorities may want to focus more substantially on it. It is therefore of growing importance that MNCs are in control of such data and are able to reconcile it with their broader tax position and narrative.

It is in that context that this study has the ambition to provide some useful food for thought. The underlying emerging theme is that MNCs, but also their stakeholders and policy makers, should be looking at tax transparency from a more holistic and impact-focused perspective and recognize that in this respect the OECD CbCR template has technical and objective limitations. While compliance with CIT laws is of paramount importance and CIT is an important source of revenue for countries across the world, CIT is not the only tax paid by MNCs. In addition, accompanying the publication of quantitative data with appropriate narrative and context can better support this aforementioned shift in perspective and evidence that a responsible tax behaviour extends beyond numerical information to cover for instance overarching topics like tax strategy, governance and management of tax affairs. TTC can be useful in this regard as well, providing complete and accessible support for the publication of tax data. It is worth to emphasise, however, that the views expressed in this study are not meant to reflect the opinion of all EBTF members.

Appendices

Appendix A

Index of abbreviations

BEPS	Base Erosion and Profit Shifting
CTR	Cash Tax Rate
CbCR	Country-by-Country Reporting
CIT	Corporate Income Tax
CRD-IV	Capital Requirements Directive IV
CSRD	Corporate Sustainability Reporting Directive
CuTR	Current Tax Rate
EBTF	European Business Tax Forum
EFTA	European Free Trade Association
ETR	Effective Tax Rate
EU	European Union
ESG	Environmental, Social and Governance
GloBE	Global Anti-Base Erosion
GRI	Global Reporting Initiative
IASB	International Accounting Standards Board
IBC	International Business Council
IIR	Income Inclusion Rule
ISSB	International Sustainability Standards Board
MNC	Multinational Company
NFRD	Non-Financial Reporting Directive
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
USA	United States of America
UTPR	Undertaxed Profits Rule
WEF	World Economic Forum

Appendix B

ESG, GRI, IBC and OECD

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).[34] t 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. The last few years have seen tax become an increasingly important part of conversations surrounding ESG, and it has now firmly planted itself as a core element in ESG metrics. ESG analysts are increasingly incorporating CbCR into their tax metrics.

Just under a third of companies in the FTSE 100 have published some form of CbCR in relation to 2021 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'[35] 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 MNCs

The OECD released aggregated information on the global tax and economic activities of nearly 4,000 MNC groups headquartered in 26 jurisdictions and operating across more than 100 jurisdictions worldwide.[36] 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.

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

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

36 https://stats.oecd.org/Index.aspx?DataSetCode=CBCR_TABLEI.

EU Tax Observatory publishes their report on ‘Tax Transparency by Multinationals: Trends in Country-by-Country Reports Public Disclosure’

In February 2023, the EU Tax Observatory released a report and a public CbCR database, which is publicly available.[35] In the report, they conclude that the public CbCRs published by MNCs highlight important trends. First, while only a small number of large MNCs currently publish their CbCRs, the number of companies is increasing rapidly for both large and smaller multinational firms. These reports, however, are scattered across different sets of documents, making collecting and analysing them a challenge. Second, CbCR publishing is driven by European MNCs, especially extractives. Finally, published reports are generally not comprehensive enough but present a satisfactory geographical disaggregation in most cases.

35 Available at: https://www.taxobservatory.eu/publication/tax-transparency-by-multinationals-trends-in-country-by-country-reports-public-disclosure/

Appendix C

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 D

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							