Tax Transparency and Public Country-by-Country Reporting

A study of the largest companies headquartered in Europe: third edition

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pwc

About us

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.

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At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 151 countries with over 364,000 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

Michael Ludlow
Outgoing Chair
of the EBTF and
Global Head of Tax
of Swiss Re

I am once again delighted to be able to bring the EBTF's latest study, dedicated exclusively to country-by-country reporting (CbCR) data. Since we published our first CbCR findings the international focus on tax transparency has continued to extend rapidly. This report begins by setting the stage with an overview of the current tax transparency landscape, highlighting recent developments and the growing importance of public CbCR in the broader context of sustainability reporting.

It underscores the pivotal role that CbCR data will play as a transitional safe harbour determinant in complying with the OECD's Pillar Two framework. At the EBTF we believe in objective, data and evidence driven tax policy. This report aims to contribute to the public tax debate on tax policy by providing tax data, filled with insights and analysis that can only be derived from the unique access we have to 67 (and growing) number of the largest MNCs based across Europe.

A key focus of the report is on the interaction between CbCR and Total Tax Contribution (TTC) data, illustrating how comprehensive tax reporting can enhance stakeholder understanding of a company's tax practices. It delves into the preparation required for publishing CbCR data and addressing common challenges in data collection and reporting.

When read with the latest TTC report released in December 2023 the messaging is clear and consistent that CIT remains a relatively small proportion of MNCs overall tax contribution and is calculated on markedly different tax bases globally. That is not to say an analysis of the CIT burden is without merit, indeed, MNCs ultimately seek profitability, however, the nuances of when and where these profits arise are myriad and will never be completely accurately reflected in CIT payments, meaning headline CbCR data whether publicly available or not is never going to give commentators the full picture of a company's tax position.

As public CbCR becomes increasingly mandated, this report underscores both these opportunities and challenges that lie ahead. On the one hand, public CbCR can enhance visibility into the tax practices of multinational companies, promoting greater transparency and enabling stakeholders to make more informed assessments of corporate behaviour. On the other, there is a risk that the data presented in public CbCR could be interpreted narrowly, potentially misrepresenting a company's overall tax position and leading to misinformed conclusions. Therefore, while public CBCR holds promise for improved accountability, it also requires a nuanced understanding of the broader context in which these tax practices occur.

The OECD estimates that the implementation of Pillar Two will generate additional tax revenues globally of around $150billion. This increase is anticipated to come from the reduction of profit shifting to low-tax jurisdictions and the imposition of top-up taxes where the effective tax rate is below the agreed minimum of 15%.

The CbCR data which we have gathered from 43 of the 67 TTC participants continues to show the volatility in headline corporate income tax ("CIT") collections globally. There is a significant risk that the Pillar Two revenue actually raised may fall short of initial projections. Certainly the introduction of qualifying domestic minimum taxes in previously "low-tax" countries will increase the overall global tax take from MNCs, with those doing business in tax havens or lower tax jurisdictions now required to pay additional taxes, however, most if not all of this extra tax is unlikely to have a wider benefit outside of those low tax countries themselves.

Concurrently, the compliance and administrative costs associated with implementing Pillar Two are high. Both businesses and tax authorities face substantial expenses related to understanding, adapting to, and enforcing the complex new rules. These costs include the need for enhanced reporting systems, increased scrutiny of financial operations, and potentially extensive legal and consulting fees. If the tax revenues do not materialize, these high compliance and administrative costs could result in a net negative impact, where the financial and operational burdens outweigh the benefits of increased tax collection.

Finally, we have this sought to provide our readers with specific helpful guidance on adopting CbCR risk indicators, analysing CbCR data effectively and offering a step-by-step approach to support companies in presenting a clear and accurate tax narrative. This narrative is crucial for getting on the front foot with communication, reducing the risk of misinterpretation by stakeholders and ensuring a consistent and straightforward account of the business's overall tax strategy and contributions.

This report marks the last during my period Chairing the EBTF, whilst I will still be very much involved with the EBTF, I am delighted to have passed over the role of Chair in April 2024 to such an insightful and well respected tax leader as Alessandro Bucchieri, Head of Tax Affairs at ENEL. I trust that you find this study of value in framing the public tax debate in objective context and I very much hope you can join Alessandro and myself along with the other members of the EBTF for the official launch of the report in London on 26th June 2024.

Executive summary

1. Country-by-Country Reporting (CbCR) focuses only on corporate income taxes

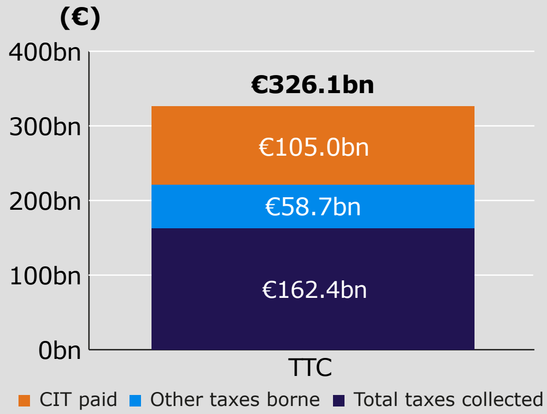
Participants in our study paid a total of

€105.0bn

of corporate income tax (CIT), but this is only a third of their Total Tax Contribution (TTC) of

€326.1bn

This highlights that CIT, while important, is only one tax and does not reflect the full range of taxes borne and collected by businesses which contribute to government budgets. CIT is the only tax that is included in CbCR and to appreciate the overall tax contribution made by businesses, one must look at the TTC. For more information, please refer to section two of this report.



2. Plan before publishing: forming the narrative around CbCR data

The preparation, analysis and disclosure of CbCR data is a relatively recent development, especially when compared to the decades spent looking at tax through the lens of financial accounting standards. There are differences in the interpretation and application of CbCR rules, which in turn lead to challenges in collecting, comparing and understanding the data. Stakeholders will inevitably compare public CbCR data with other publicly available financial information. However, financial statements and CbC reports are prepared for different purposes and adopt different methods. There will be differences between the figures presented under similar headings in both sources, such as profits or revenues.

Performing a reconciliation between financial statements and CbC reports and explaining such differences will help stakeholders draw more informed, constructive and accurate conclusions about the tax affairs of a multinational company (MNC) compared to its peers. Section three of this report looks at common reasons why figures in financial statements differ from those presented in CbC reports and presents a step plan to support companies getting ready to publish their CbCR filings. Section four looks at a selection of risk indicators which might help companies to interpret their CbCR data.

Executive summary

3. CbCR data will be central to the OECD Pillar Two safe harbours

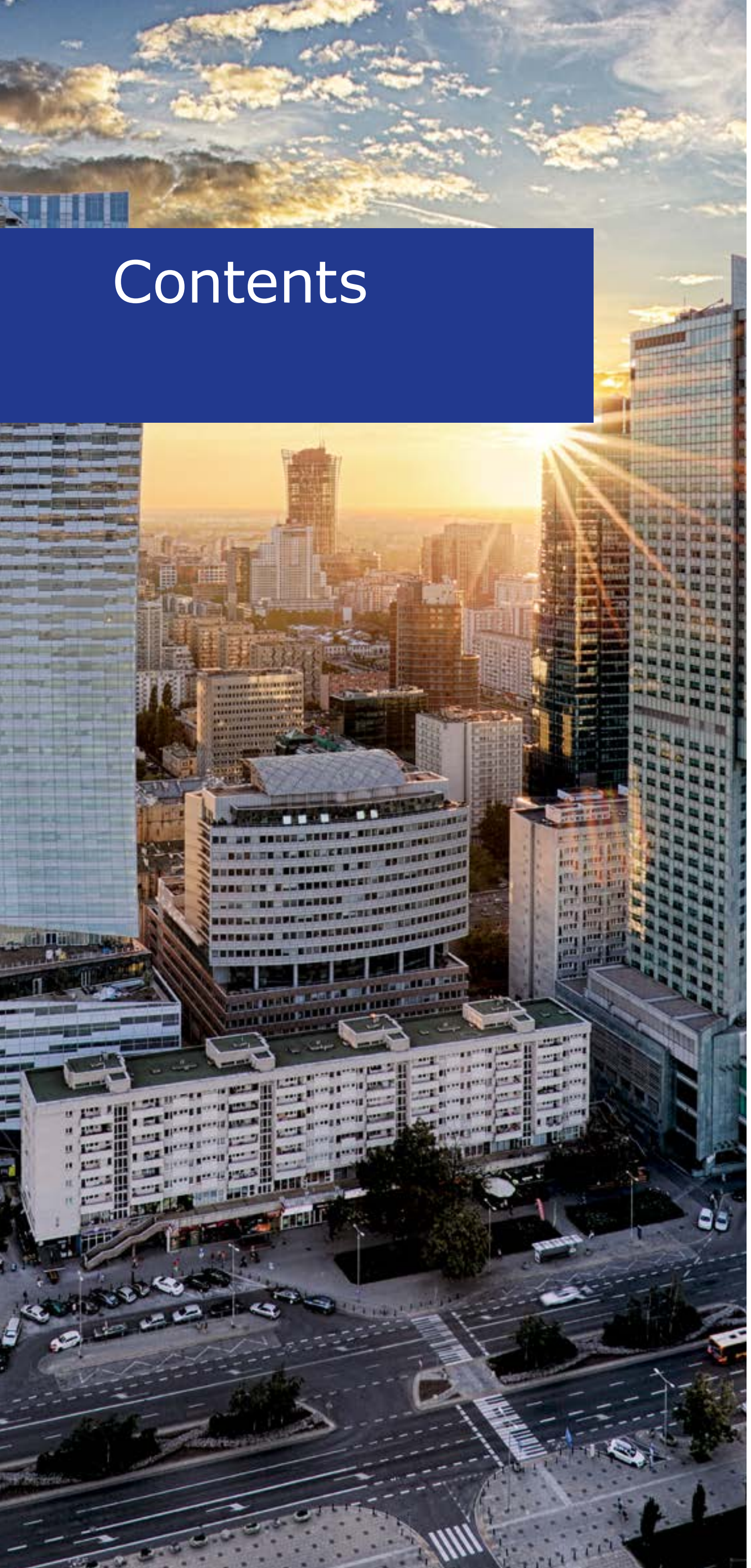
The OECD Pillar Two provisions include a transitional safe harbour that relies on CbCR data. For an initial three-year period (2024-2026), if a taxpayer calculates that for a particular country it falls within the CbCR-based safe harbour, then no further tax is due under the Pillar Two rules and more detailed calculations are not required. This development elevates the importance of CbCR from a high-level risk assessment instrument to an important element of Pillar Two, thereby attracting increased scrutiny from tax authorities.

However, for the transitional safe harbour to be applicable, an MNC's CbC report must be 'qualifying'. Achieving this qualification is not without its challenges, which can be broadly categorised into issues related to source data, adherence to CbCR guidance, and the actual production of the report. Furthermore, the detailed implementation of the GloBE rules, including the specifics of reporting and publication of ETRs by country, is still being refined. For more information, please refer to section one of this report.

4. Opportunities amidst complexity

There is inconsistency in the way individual EU Member States are incorporating EU legislation into their national laws. The introduction of public CbCR increases the complexity and compliance expenditures for tax departments that are already contending with the pressures to curtail costs, boost operational efficiency, and provide enhanced value.

Despite these challenges, public CbCR is an opportunity for corporations to reassess their tax transparency strategy and ensure that stakeholders are provided with meaningful and comprehensive data. There is still time to create a tax narrative and align with other publicly available data to present a cohesive and complete picture to stakeholders.



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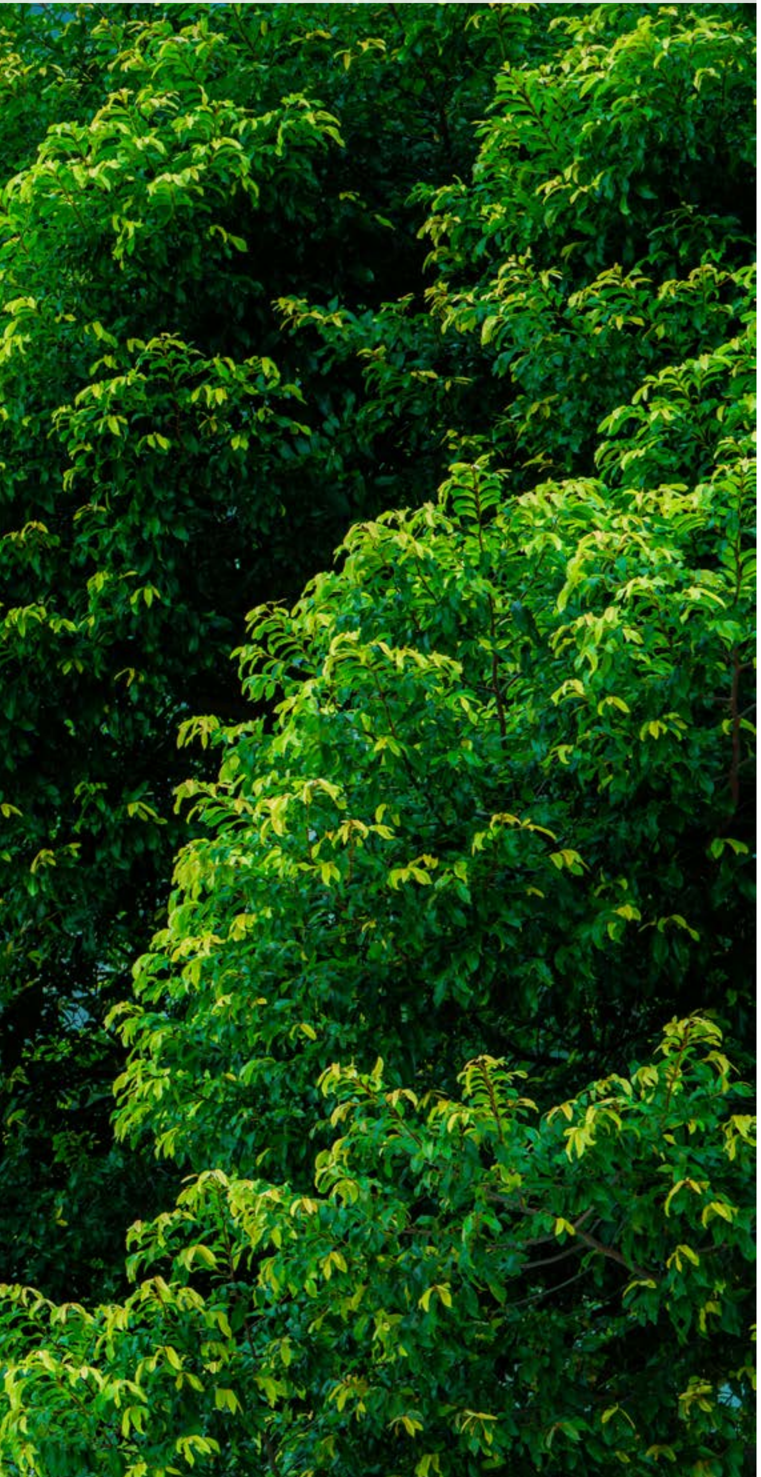
Understanding key tax concepts

Several data points can be obtained from the TTC, CbCR and other data sources. The table below provides the definition, formulae and purpose of the key tax metrics considered in this study.

Name (Abbreviation)	Consolidated Accounting Effective Tax Rate (ETR)	Cash Tax Rate (CTR)	Current Tax Rate (CuTR)	Total Tax Rate (TTR)	Global Anti-Base Erosion Effective Tax Rate (GloBE ETR)	Total Tax Contribution (TTC)
Definition	Current and deferred tax expense (or benefit) as a proportion of profits before income taxes	CIT on a cash basis as a proportion of profits before income taxes	Current tax expense (excluding deferred taxes) 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	The Total Tax Contribution Framework provides information on all the taxes companies bear and collect on behalf of third parties. It's a universal framework that can be applied in any tax regime.
Formula	ETR = Consolidated current and deferred tax expense (or benefit) / Consolidated profits before income taxes	CTR = CIT (cash basis) / Profits before income taxes	CuTR = Current tax expense / Profits before income taxes	TTR = Total taxes borne / Profits before all taxes borne	GloBE ETR = Adjusted covered tax / Adjusted net GloBE income	TTC = Taxes borne + Taxes collected
Source	Annual accounts	OECD Table 1 CbCR filings or Cash Flow and Income Statements within the annual accounts	OECD Table 1 CbCR filings or Income Statements within the annual accounts (excluding uncertain tax position reserves and prior year adjustments)	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	This is a voluntary disclosure. New data collection processes must be implemented.
Purpose	Demonstrate the proportion of profits which are accrued for current income tax expenses, including 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 accrued by companies in the form of CIT on the current year's profits.	Demonstrate the percentage of profits before all taxes borne which are paid by companies in the form of taxes borne, 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 137 countries and the GloBE ETR is a calculation step of the minimum tax.	The framework is straightforward in concept, not tax technical and therefore relatively easy for stakeholders to understand. It covers not only profit taxes, but also people, product, planet and property taxes.

1

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



Purpose of this study

Since we published the second CbCR study in March 2023, the international tax transparency landscape has experienced another year of significant change. There has been rapid progress in mandatory reporting systems, including the EU's Public Country-by-Country Reporting (pCbCR) Directive and the OECD's Pillar Two initiative. The Financial Accounting Standards Board's (FASB) voted to finalise the disclosure rules under its Improvements to Income Tax Disclosures initiative[1] and the Corporate Sustainability Reporting Directive (CSRD) has made sustainability reporting mandatory for companies in scope. The continuously evolving rules and standards mandate an unprecedented level of public disclosure of financial information while simultaneously requiring MNCs to ensure their compliance is in harmony with their overall tax strategy, tax governance, and objectives related to environmental, social, and governance (ESG) metrics.

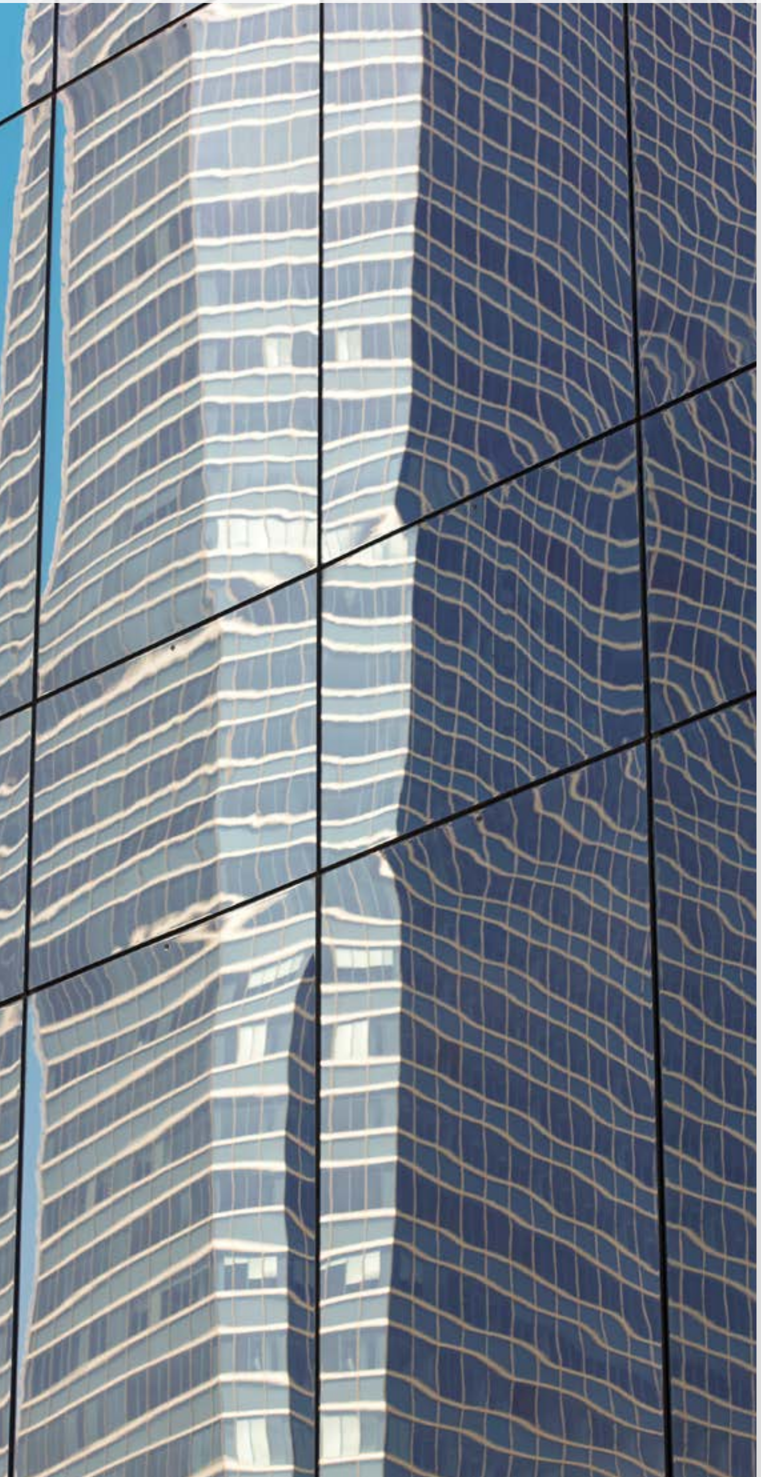
International tax reform is one of the biggest challenges affecting tax functions today. Tax has evolved far beyond the internal compliance matter it once was. The way in which the various tax reporting requirements will align with the growing body of ESG regulations is yet to be fully determined. However, it is evident that tax transparency has become integral to the broader concept of sustainability. Therefore, tax reporting is subject to heightened scrutiny not only from stakeholders interested in tax compliance and financial reporting, but also from those inspecting corporate behaviour through a sustainability lens.

This report, along with the fifth edition of the EBTF TTC study,[2] is a result of the EBTF's mission: to contribute to the public tax debate by providing tax data that would otherwise have been 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 2022 figures contained in Table 1 of the CbCR template (preferably the OECD CbCR template, as shown in Appendix E) for analysis. As a result, 13 MNCs have shared their private data confidentially and 30 companies consented to the use of their publicly available data in this study. These 43 MNCs (hereinafter referred to as participating companies or study participants) represented 75.2% of CIT and 58.1% of the TTC of the 67 companies participating in the fifth 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 agreed to present results in aggregate format, so the name of participant companies cannot be ascertained. PwC used a bespoke data analytics dashboard to consolidate and interrogate the data.

1. Financial Accounting Standards Board – Improvements to Income Tax Disclosures, available at https://www.fasb.org/page/PageContent?pageId=/projects/recentlycompleted/improvements-to-income-tax-disclosures.html
2. EBTF, 'Total Tax Contribution A study of the largest companies headquartered in Europe: fifth edition', available at https://ebtforum.org/ttc/



Recent developments

After coming into force on 21 December 2021, the EU pCbCR Directive has now been transposed into the domestic legislation of nearly all individual EU member states. For an overview of the required disclosures under the EU pCbCR Directive, please see Appendix C.

Romania was the first member state to introduce the requirements into national legislation. The legislation applies to financial years beginning on or after 1 January 2023. As reporting is required within 12 months of the financial year-end, qualifying companies with operations in Romania could be publishing their first CbCR reports under the new legislation by 31 December 2024.

Most other member states that have transposed the rules set their publication date as 12 months after the first financial year starting on or after 22 June 2024 which is the deadline mandated by the EU Directive. Croatia is an exception with a publication date 12 months after the first financial year starting on or after 1 January 2024, thereby requiring first disclosures by 31 December 2025.

According to the EU Directive, the data disclosed must be itemised for each EU Member State and for jurisdictions considered non-cooperative (EU 'black' list) or on the EU's 'grey' list for over two years.[3] Other jurisdictions can be reported in aggregate. In cases where there are significant differences between the income tax accrued and the tax paid, an explanatory narrative may be provided.

The EU Directive requires member states to impose penalties for non-compliance with pCbCR disclosures, but some territories have yet to introduce a penalty regime. Territories which have already introduced penalty regimes take differing approaches to the level of penalties and the persons they are imposed on. Austria and Greece, for example, make the size of the penalty dependent on the size or classification of the company. The Czech Republic chose a different approach and introduced a fine of up to 3% of company assets for the failure to prepare or publish the report. Certain territories specify that, on top of a penalty imposed on the company itself, a further fine, and in some instances imprisonment, could be imposed on the responsible person at the company.[4] Responsible personnel for reporting and penalty purposes are mostly defined as the company's legal representatives, board members or members of the management body.

3. The most recent list of non-cooperative jurisdictions for tax purposes, as determined by the European Union, can be accessed at the following URL: https://www.consilium.europa.eu/en/press/press-releases/2024/02/20/taxation-bahamas-belize-seychelles-and-turks-and-caicos-islands-removed-from-the-eu-list-of-non-cooperative-jurisdictions-for-tax-purposes/

4. Territories which impose a penalty on the 'responsible personnel' include: Austria, Belgium, Croatia, Germany, Greece, Ireland, Luxembourg, Netherlands, Poland, Slovenia.

While most territories implemented the requirements without significant deviations from the rules contained in the EU Directive, there are some important local deviations. Noteworthy territory deviations from the EU Directive include:

- **Belgium:** Disaggregated information should not only be published for jurisdictions that are mentioned on the EU black or grey list, but also for those jurisdictions on the broader Belgian lists of countries with no or low taxation.
- **Hungary:** The Hungarian legislation requires MNCs in scope to explain the reasons behind any significant differences between the income tax accrued and income tax paid.
- **Ireland:** For companies whose EU pCbCR obligation is governed by the Irish regulations, the report must be filed within 56 days of the company's Annual Return Date (this is specific to each company and can be up to 9 months after a company's financial year end).
- **Spain:** The report must be published within 6 months after the first financial year starting on or after 22 June 2024. This is earlier than the 12-month publication deadline included in the EU Directive.

Nearly all territories that have transposed the Directive into their local legislation include the option to omit specific information from the report for 5 years if its disclosure could seriously harm the commercial position of the companies to which the report relates. Adopting this deferral based on commercial sensitivity is optional under the EU Directive. Territories which chose not to adopt the optional deferral include Belgium, Greece and Hungary.

There are several differences between the OECD Table 1 CbCR template and the pCbCR disclosure requirements under the EU Directive. One key difference stems from the EU's decision to remove the line for "stateless"[5] from the pCbCR data. Under the OECD rules, if a tax transparent entity, such as a partnership, is not tax resident in any jurisdiction, the partnership's data points, to the extent they are not attributable to a permanent establishment, should be reported as "stateless". Any partners that are also Constituent Entities within the MNC are required to include their share of the partnership's items in the jurisdiction where they are tax resident. This approach results in a double counting of revenues and profits at the partner and stateless level. The EU Directive does not include a similar concept of "stateless" entities and requires all data points to be allocated to one jurisdiction only. This means that published CbC reports following the EU Directive may not reconcile to the privately submitted filings based on the OECD-model.

Outside the EU, the Australian government introduced a pCbCR proposal in April 2023 that would have gone further in its disclosure requirements than the EU Directive. Following industry consultations the Australian Treasury has released a revised draft of the proposed legislation with terms that are in closer alignment with the EU Directive.[6] The revised draft confirms that, as previously announced, the start date for the measures is deferred to financial years starting on or after 1 July 2024. While the revised proposal is better aligned to the EU Directive both in terms of the information required to be disclosed and the allowances for aggregating non-specified jurisdictions, the Australian proposal still requires additional disclosures from MNCs within its scope. The new draft maintains the requirements for an "approach to tax" document, based on guidance from GRI 207.1, to be defined at a group level and covering all relevant jurisdictions. Producing such a document will require a consolidated assessment and formal descriptions of how all entities within the group approach tax. An explanation of the difference between tax accrued and profit before tax multiplied by the country tax rate is also required, as well as a disclosure of revenue from related parties that are not tax residents of the jurisdiction. Similarly to Belgium, the Australian proposal also has its own list of specified jurisdictions for which information must be disclosed on a disaggregated basis.

5. OECD, Guidance on the Implementation of CbC Reporting, available at: https://www.oecd.org/tax/beps/guidance-on-country-by-country-reporting-beps-action-13.htm

6. Revised Exposure Draft available at: https://treasury.gov.au/consultation/c2024-488354

Public tax transparency in the context of sustainability reporting

The EU pCbCR Directive, Australian pCbCR and the global minimum tax rules under Pillar Two all focus on the amount of CIT borne by MNCs in the countries in which they operate. Although important, CIT is a relatively small percentage of total government receipts in OECD countries, making up, on average, 9.0% of total country revenue receipts.[7] Viewed in isolation, these initiatives send the message that the amount of CIT borne is the best indicator of MNCs' approach towards their tax affairs.

However, the integration of tax within broader sustainability reporting frameworks to provide a more complete picture of the tax affairs of MNCs continues to gain momentum and be of interest to stakeholders. There are several global tax transparency developments which take a more holistic view of corporate tax affairs and, rather than focusing on CIT, encourage companies to develop a more responsible approach to tax and business as a whole.

The GRI tax standard (GRI 207) and the World Economic Forum's (WEF) Stakeholder Capitalism Metrics are examples of the wider integration of tax within ESG. The GRI tax standard includes CbCR data, but also gives MNCs the option to publish tax data beyond CIT.

Other areas included in the standard 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 WEF Stakeholder Capitalism Metrics include 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. These voluntary standards recognise that taking a holistic view of the way companies approach their tax affairs and accounting for all of their tax contributions is a comprehensive way to measure the value provided to the societies and economies in which they operate.

On the regulatory front, the EU's Corporate Sustainability Reporting Directive (CSRD)[8] and the first European Sustainability Reporting Standards (ESRS)[9] adopted under the Directive, carry significant implications for tax departments. While there is no explicit tax standard in these sustainability reporting frameworks, they require the consideration of tax as a material topic and the alignment of ESG related disclosures with the tax affairs of the business. ESRS S3, concerning affected communities, also suggests disclosing how an undertaking's tax positions impact developing economies.

7. OECD, Corporate Tax Statistics: Fifth Edition, available at https://www.oecd-ilibrary.org/taxation/corporate-tax-statistics-2023_f1f07219-en
8. EU Directive 2014/95, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32014L0095&from=EN.
9. European Sustainability Reporting Standards, available at https://www.efrag.org/lab6?AspxAutoDetectCookieSupport=1.

The International Accounting Standards Board's (IASB) International Sustainability Standards Board (ISSB) initiative further highlights the rising importance of non-financial information to stakeholders. The ISSB's inaugural standards issued in June 2023[10] establish a new global baseline for ESG reporting and place a marked expectation on companies to map out which ESG elements are material for their business. In the United States, the Securities and Exchange Commission (SEC) adopted new rules mandating that companies disclose climate-related risks that are reasonably likely to influence their business strategy and operational results.[11] This regulatory change is indicative of a broader shift towards greater transparency and accountability in corporate reporting.

With the above developments in mind, tax transparency is expected to occupy a prominent position on the agenda.

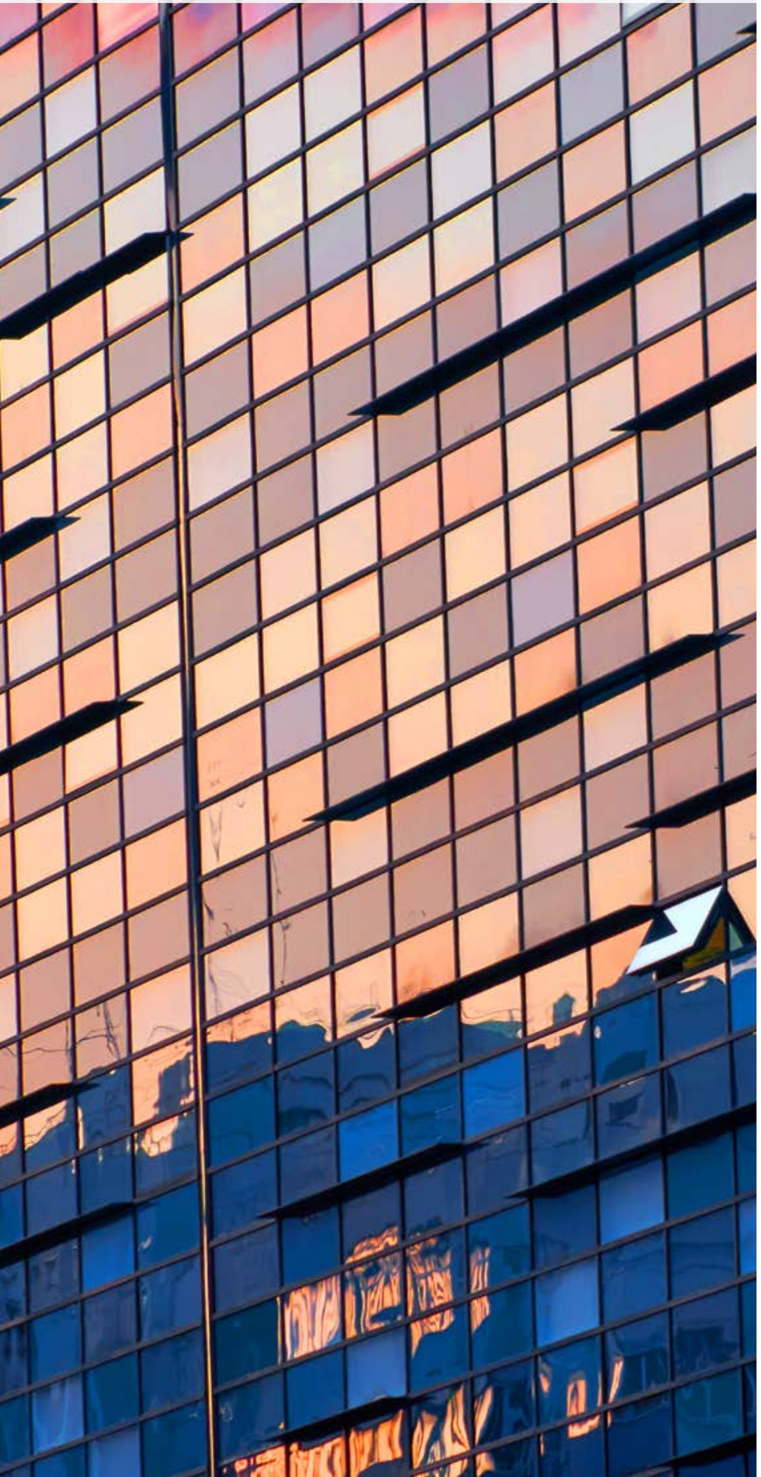
CbCR on its own (based on the anticipated EU pCbCR template), which will require only CIT information from a tax perspective, is unlikely to give a comprehensive picture to stakeholders. As pCbCR becomes mandatory, additional disclosures should be considered in the context of the company's overall tax strategy, tax governance and ESG objectives.

Such disclosures allow companies to present their tax affairs and contributions in a more comprehensive way and take non-financial information, such as tax governance and risk management elements, into account. Section three offers further explanation on the importance of additional voluntary tax disclosures in the context of forming the narrative around published CbCR data. The right narrative can help companies tell the whole story around tax and thereby reduce the risk of misinterpretation by stakeholders, while presenting a consistent and straightforward account 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 interactions between CbCR and TTC data, section three looks at the uses and limitations of CbCR data along with steps to consider before publishing the data, and section four explores frequently asked questions around CbCR data.

10. ISSB issues inaugural global sustainability disclosure standards, available at https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/.

11. The SEC later suspended the implementation of the climate rules amid legal challenges. For more information on these new requirements: https://www.sec.gov/news/press-release/2024-31



Public CbCR and Pillar Two

The inception of Pillar Two marks a significant shift in the global tax landscape, introducing a universal minimum tax regime for MNCs with annual consolidated revenues exceeding €750 million. This initiative, which has garnered global consensus, is set to be transposed into law, with the OECD providing a comprehensive framework comprising model rules, commentary, and administrative guidelines. In many jurisdictions the Pillar Two rules (the Income Inclusion Rule – IIR – and the Qualified Domestic Minimum Top up Tax – QDMTT) are already effective in 2024, whilst the Undertaxed Profits Rule (UTPR) will become effective in 2025. There are also other jurisdictions working on their domestic rules to implement Pillar Two as from 2024 and 2025.

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

On December 20, 2022, the OECD unveiled the specifics of the Pillar Two safe harbour provisions, which are designed to simplify the compliance process by relying on readily available CbCR data instead of the more intricate Global Anti-Base Erosion (GloBE) calculations.

These provisions include a transitional safe harbour that leans heavily on CbCR data. For an initial three-year period (2024-2026), if a taxpayer calculates that for a particular country it falls within the CbCR-based safe harbour, then no further tax is due under the Pillar Two rules and more detailed calculations are not required. This development elevates the importance of CbCR from a risk assessment instrument to an important element in the calculation of top-up taxes, thereby attracting increased scrutiny from tax authorities.

However, for the transitional safe harbour to be applicable, an MNC's CbC report must be 'qualifying'. Achieving this qualification is not without its challenges, which can be broadly categorised into issues related to source data, adherence to CbCR guidance, and the actual production of the report.

The wrong source data

The process of gathering accurate source data for CbCR is fraught with potential complications:

- **Inconsistent Data Systems:** MNCs often grapple with multiple Enterprise Resource Planning (ERP) systems, leading to inconsistent data.
- **Unstructured Data:** Data may be poorly structured, making it difficult to extract and utilise effectively.
- **Adjustments and Allocations:** Complexities arise from purchase price allocations and topside adjustments.
- **Entity Considerations:** Issues with non-consolidated and/or immaterial entities, permanent establishments, and branches can complicate data collection.
- **Data Disaggregation:** Consolidated data points may need to be broken down into more granular details.
- **Accounting Standards:** Discrepancies between Group Generally Accepted Accounting Principles (GAAP) and local GAAPs can create inconsistencies.
- **Data Collection and Validation:** the processes can be slow and laborious, often exacerbated using "non-GAAP" shortcuts.

CbCR guidance (or lack of)

Additionally, the CbCR guidance from the OECD and/or local tax authorities presents its own set of challenges, as it often diverges from standard accounting definitions:

- **Revenue Thresholds:** Understanding and applying the CbCR revenue threshold correctly is crucial.
- **Revenue Recognition:** Determining what constitutes third party and/or related party revenue and the inclusion of non-IFRS 15 items to meet the wide definition from the OECD CbCR guidance.
- **Entity Classifications:** Disclosing information for entities such as partnerships, LLCs, branches, and stateless entities which often have specific tax treatments requires careful consideration.
- **M&A Activity:** Incorporating data from mergers and acquisitions at the correct time in line with the consolidation accounting standards.
- **Dual Residency:** Identifying and disclosing dual resident entities is a nuanced process.
- **Withholding Taxes:** Locating and disclosing withholding tax information is rarely straightforward.

Producing the report

The final hurdle is the production of the CbC report itself, which is often prepared based on simplifying assumptions made prior to the release of OECD guidance on challenging topics and/or in areas where the OECD guidance lacks specificity. The following points highlight common areas of difficulty:

- **Aggregation vs. Consolidation:** A common mistake is treating the report as a consolidation exercise rather than an aggregation.
- **Rounding and Negative Numbers:** Issues arise from rounding numbers and including negative figures where they should not be.
- **Inconsistencies:** Jurisdictional inconsistencies between tables and the use of multiple currencies can lead to confusion.
- **Manual Adjustments:** Unjustified adjustments (by which we mean adjustments that are required by the OECD CbCR and/or Pillar II guidance) to GAAP compliant numbers can invalidate the CbC report.
- **Data Integrity:** Simple errors such as transpositions, incomplete or outdated data, and reliance on multiple data sources can compromise the report’s accuracy.

The importance of proactive compliance

While the transitional safe harbours offer some temporary respite from the full GloBE compliance obligations in low-risk jurisdictions, MNCs are now working on refining their data gathering and compliance processes. Not all jurisdictions will benefit from the safe harbours, necessitating comprehensive data sets and reporting. Some MNCs are proactively conducting data gap analyses and enhancing compliance readiness across all jurisdictions, recognising that this approach may be more efficient than a limited exercise based on safe harbour testing.

Please refer to Section 3 for further information on what companies are doing to prepare themselves for the publication of their CbCR data.

2

Total Tax Contribution and Country-by-Country Reporting

Interaction between the two sources of information

In contrast to CbCR which primarily focuses on CIT, TTC reporting encompasses all taxes that a company is responsible for paying and collecting. The subsequent paragraphs draw connections between the various elements reported in the OECD CbCR template and the broader tax-related information that can be gleaned from the TTC figures of the participating companies.

These sections illustrate the way in which TTC information serves to enhance the CbCR data, offering a more comprehensive and nuanced understanding of the tax payments made by MNCs.

Table 1 below shows global TTC and CbCR data for the 43 participating companies. Given that the study participants have substantially increased compared to last year, any references in the report to 2021 figures are for illustrative purposes only and are not on a like-for-like basis.

Table 1: TTC and CbCR data comparison

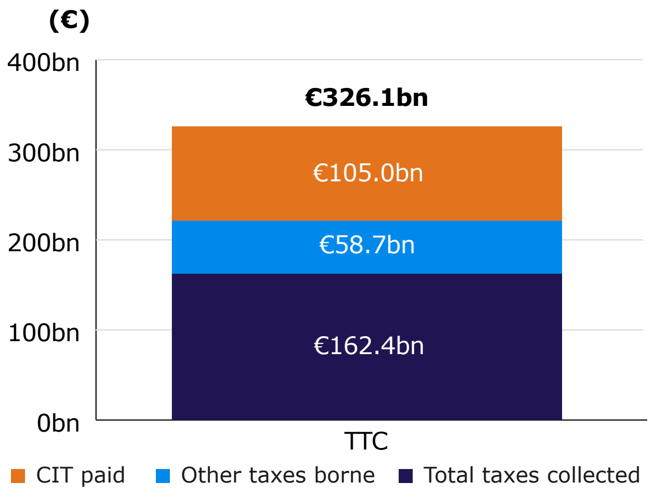
CbCR Heading	CbCR Total		Related TTC data from participating companies
	Global 2022	Europe 2022	
CIT (cash basis)	€105.0bn	€66.6bn	In addition to CIT, companies bear and collect many other taxes – Global TTC: €326.1bn, Europe TTC: €205.7bn.
Number of employees	2.2m	1.1m	In addition to paying wages and salaries, companies bear and collect people taxes – Global: €52.4bn, Europe: €35.5bn.
Tangible assets	€1,144.9bn	€550.6bn	Companies bear and collect property taxes on tangible and intangible assets – Global: €4.1bn, Europe: €2.4bn.
Third-party revenues	€1,722.1bn	€951.4bn	Companies bear and collect product taxes – Global: €73.9bn, Europe: €50.5bn on third-party revenues.

Source: TTC and CbCR study participants, based on aggregated data from 43 companies.

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 €105.0bn (2021: €24.5bn) in the same countries for which TTC data was provided. For this same group, other taxes borne corresponded to €58.7bn (2021: €55.3bn), total taxes collected corresponded to €162.4bn (2021: €137.1bn), and their TTC amounted to €326.1bn (2021: €216.9bn).

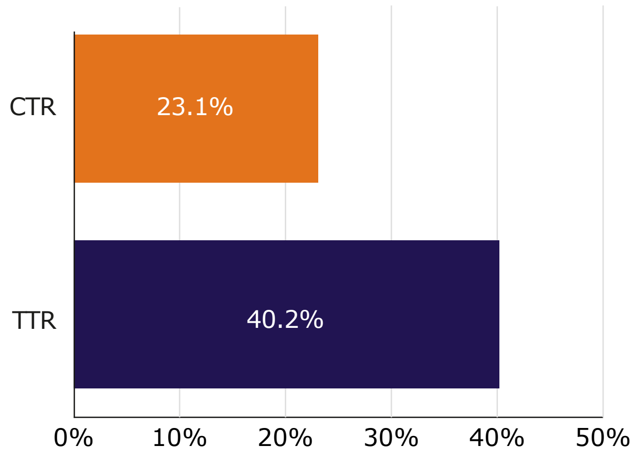
Figure 1: CIT paid on a cash basis (OECD CbCR templates of participating companies) versus TTC data (EBTF TTC study) – 2022



Source: TTC and CbCR study participants, based on aggregated data from 43 companies

For every €1 of CIT on a cash basis, there is an additional €0.56 (2021: €2.26) of other business taxes borne and €1.55 (2021: €5.60) in other taxes collected globally which are not reported in OECD CbCR template filings. CIT thus only represents a portion of all taxes contributed by participating companies. Other taxes borne and collected also represent an administrative cost to the company and significantly contribute to public finances, yet they are not captured by the OECD CbCR template.

Figure 2: CTR versus TTR on a like-for-like basis – 2022



Source: TTC and CbCR study participants, based on an average basis by participant.

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 average CTR by study participant in 2022 is 23.1% (2021: 20.8%), which is very close to the worldwide average statutory CIT rate weighted by GDP among 180 jurisdictions (25.4%) as reported by the Tax Foundation.[12] Notably, our aggregate dataset also covers 180 distinct jurisdictions.

The TTR represents the proportion of taxes borne in relation to profits before all taxes borne. The average TTR by study participant corresponds to 40.2% (2021: 38.2%) in the same countries considered in the calculation of the average CTR mentioned above.

As stated above, the emphasis on CTR shows only part of the picture whereas TTR provides a broader understanding and shows what proportion of profits are paid over to governments by companies in the form of business taxes. For the calculation of the TTR, total taxes borne would be needed, rather than just CIT as currently presented in CbCR tables. Lastly, not every enterprise will find the TTR a meaningful metric reflective of its fiscal engagements or strategic objectives.

Therefore, while the TTR may be a valuable metric for some, it is not a universal solution that should be mandated for all. The decision to produce TTR data should be made on a case-by-case basis, considering the unique circumstances and the strategic relevance to the individual business in question. This tailored approach ensures that the reporting obligations align with the informational needs of stakeholders without imposing a one-size-fits-all requirement that may not serve the nuanced demands of tax transparency.

12. Tax Foundation, Corporate Income Tax Rates around the World, 2022. Available at: https://taxfoundation.org/data/all/global/corporate-tax-rates-by-country-2022/
The non-weighted worldwide average statutory corporate income tax rate, measured across 180 jurisdictions, is 23.4%.

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 because of having employees in a certain jurisdiction.

Total employment taxes paid by the 43 (2021: 35) participating companies amounted to €52.4bn (2021: €41.1bn), comprising €17.0bn (2021: €11.2bn) in taxes borne and €35.4bn (2021: €29.9bn) in taxes collected. The participating companies provided employment for 2.2 million (2021: 2.0 million) people, paying on average €23,838 (2021: €20,991) in employment taxes per employee. Of this total, €7,717 (2021: €5,732) corresponds to employment taxes borne and €16,121 (2021: €15,259) to employment taxes collected.

Property taxes and tangible assets

The CbCR filings of the participating companies show total tangible assets amounting to €1,144.9bn (2021: €1,676.4bn). For this same population, €4.1bn (2021: €4.4bn) was paid in property taxes levied on the ownership and use of property and on the acquisition and disposal of property. The consideration of property taxes facilitates an understanding of the tax contributions made by companies because 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 clear that property taxes borne represented 0.4% (2021: 0.3%) 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 €1,722.1bn (2021:€1,076.1bn), with total taxes and duties borne in relation to their own consumption of goods and services amounting to €17.5bn (2021: €13.6bn), and product taxes collected on the sale of goods and services on behalf of their customers and paid over to the government totalling €56.4bn (2021: €45.1bn), €73.9bn (2021: €58.7bn).

This shows that an amount equivalent to 4.3% (2020: 6.5%) of total third-party revenues were paid either as a product tax borne or collected in 2022. 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.

3

Preparing to publish Country-by-Country Reports

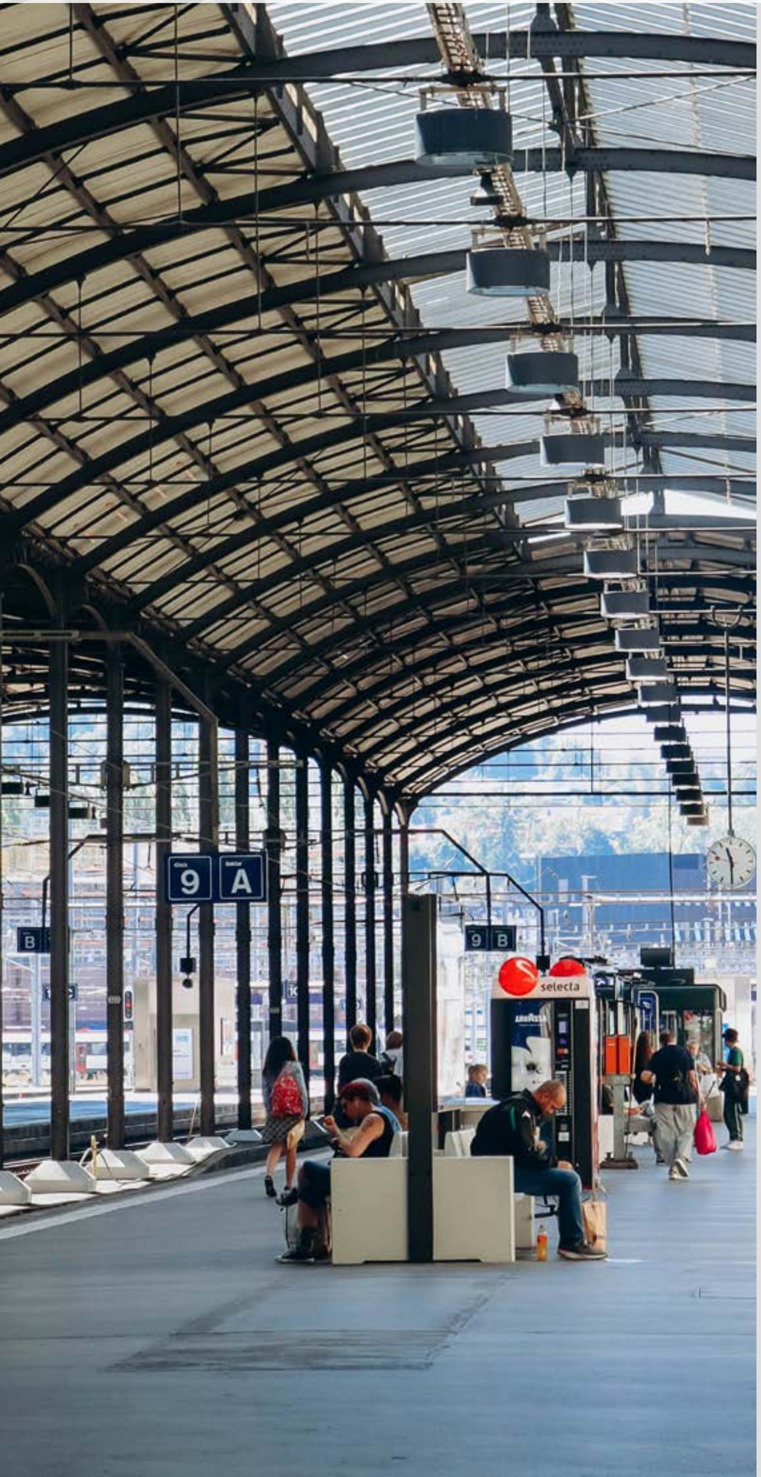
When compared to the decades of experience and the literature available on financial accounting standards, CbCR analysis is only just starting. As CbC reports start becoming publicly available, it is expected that different policies and assumptions in respect of completing, analysing and interpreting CbC reports will continue to surface. As CbCR is a framework and not an accounting standard like the IFRS, it is challenging to compare information and draw constructive and accurate conclusions about the tax affairs of MNCs and their contribution to the societies in which they operate based on the CbC data only.

As mentioned in section one, additional disclosures in the context of a company's overall tax strategy, tax governance and ESG objectives could be used to complement a company's CbC report. These disclosures could include additional narrative on the CbC data and caveats on the appropriate use of the data. The starting point for making any additional disclosures is ensuring the accuracy of the underlying CbC data. This can be a challenge given the interpretational difficulties companies face during the preparation of their CbC data as well the differences between the OECD and EU pCbCR templates and the differing national implementations of the Directive as outlined in section one.

The 10-step plan opposite outlines the areas companies could consider before publishing their CbC reports:

Areas to consider when forming a narrative to your CbCR data

	Overview of action required	Outcome and Value
1. Stakeholder Engagement	• Establish a cross-functional team to ensure a coherent approach to CbCR. • Develop an internal communication strategy to educate stakeholders on the importance of CbCR. • Secure endorsement from senior management to demonstrate the company's commitment to transparency	• Communicate the value of CbCR effectively across the organisation, addressing concerns and obtaining a unified approach to tax transparency. • Develop a strategy to effectively reinforce the company's commitment to responsible tax practices as part of a wider sustainability strategy.
2. Confidence In Your Data	• Integrate data verification into the Tax Control Framework for consistency. • Perform regular checks and validations to ensure data reliability. • Consider internal or external assurance to verify data accuracy.	• Ensure CbCR data aligns with the company's tax strategy and compliance efforts. • Establish confidence in the data's accuracy and consistency.
3. Reconciling with Financial Statements	• It could be valuable to conduct a reconciliation between CbCR data and financial statements. • Identify and understand discrepancies due to different accounting practices. • Ensure clear explanations for any differences are available for stakeholders.	• The publication of the reconciliation is not necessary in every circumstance. It might be useful to have them ready in case you are asked by stakeholders. • Enhance the credibility of the company's financial reporting.
4. Trend Analysis and Outliers	• Analyse CbCR data to identify significant deviations and trends. • Investigate the causes behind any outliers to provide context. • Prepare to address stakeholder questions with informed explanations.	• Equip the company with a well-founded economic narrative and ability to swiftly provide thorough explanations to stakeholder questions. • Demonstrate an understanding of the business's financial activities.



Areas to consider when forming a narrative to your CbCR data

	Overview of action required	Outcome and Value
5. Peer Benchmarking Analysis	• Execute benchmarking analysis using key financial ratios and metrics. • Compare company performance with industry peers to identify strengths and weaknesses. • Use insights for strategic decision-making and to enhance narrative credibility.	• Gain insights into the company's competitive standing within the industry, identifying areas for improvement and strategic opportunities. • Enhance the credibility of the company's narrative with contextual data.
6. Country Lists Analysis (EU, Australia, etc.)	• Conduct detailed analysis of transactions with entities in countries covered by the applicable lists (i.e. EU grey and blacklisted countries, and individual country lists such as Australia's and Belgium's country lists for example). • Ensure reporting is comprehensive and transparent in high-scrutiny areas.	• Effectively manage reputational risks and comply with international reporting requirements. • Ensure comprehensive and transparent reporting in sensitive jurisdictions.
7. Jurisdiction Filing Considerations	• Consider regulatory implications and global reporting requirements. • Assess and select the most suitable jurisdiction for public CbCR filing.	• Streamline reporting processes, minimising administrative burdens, by selecting an appropriate filing jurisdiction. • Align with the company's transparency and compliance strategy.
8. Public Disclosure Preparation	• Compile analyses into a clear and accessible public disclosure document. • Prepare an internal Q&A document for potential stakeholder questions. • Present data and narratives in a manner that enhances stakeholder understanding.	• Enhance stakeholder engagement with clear and comprehensive disclosures. • Pre-emptively address potential queries, demonstrating accountability and reinforcing the company's commitment to transparency and responsible reporting.

Areas to consider when forming a narrative to your CbCR data

	Overview of action required	Outcome and Value
9. Narrative Alignment	• Ensure CbCR narrative is consistent with other corporate disclosures to maintain a coherent corporate message across all reporting requirements. • Comply with international guidelines like OECD's Pillar Two.	• Support a unified corporate message that influences stakeholder perceptions, while achieving consistency and compliance with various reporting requirements. • Strengthen the trustworthiness of the company's reporting.
10. Voluntary Disclosure Consideration	• Evaluate the benefits of additional voluntary disclosures in public CbCR or in a stand-alone tax transparency report. • Draft a more comprehensive view of the company's economic activities, which can be considered internally to potentially highlight the company's commitment to transparency and corporate responsibility.	• Differentiate the company as a leader in corporate responsibility, demonstrating ethical business practices and a commitment to transparency. • Foster greater trust and goodwill with stakeholders through greater transparency.

Reconciling Country-by-Country Reporting data to financial statements

Making CbC reports public will inevitably lead to stakeholders comparing the figures with other financial information published by the company. Financial statements and CbC reports are designed to serve distinct objectives, which are manifested in the specific standards, regulations and guidance that govern their preparation. Consolidated financial statements present the results of the parent entity and its subsidiaries as those of a single economic entity to facilitate stakeholder assessment of the group's overall financial performance and position.

The OECD's CbCR, on the other hand, was originally designed to "support tax administrations in the high-level detection and assessment of transfer pricing and other BEPS-related risks"[13].

The divergent purposes of these documents and the different frameworks which dictate the methodologies and disclosures required for their preparation mean that figures included under the same headings in the two sources of information will differ.

As outlined in the 'step plan' above, publishing narrative around the reasons why CbC data does not match that presented in the financial statements, or providing a reconciliation between the two sources will help stakeholders interpret the data and draw meaningful conclusions from it.

The findings below compare data points from the CbC reports of the 43 MNCs with other financial information available, such as their annual accounts, and outline the most common reasons why certain figures presented in CbC reports do not match to those found under the same headings in financial statements.

Findings

Revenue from related versus non-related parties

The OECD CbCR template contains two categories of revenue:

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

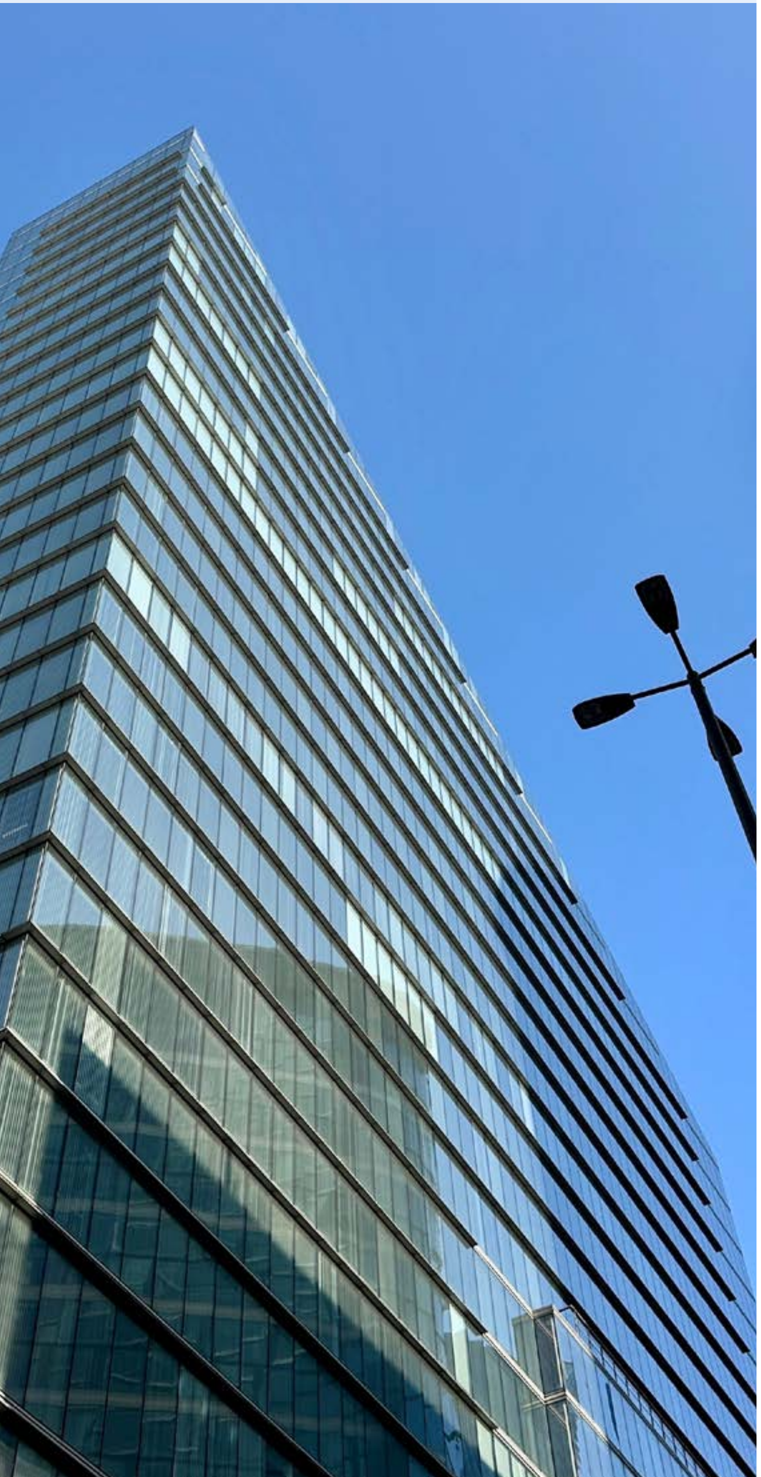
The OECD CbCR template requires data to be aggregated for all entities in each country.[14] Consequently, transactions between entities within the same country can cause revenue to be counted multiple times. The OECD CbCR template does not provide for an adjustment to eliminate transactions between related entities in the same country.

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

The debate around the definition of what constitutes revenue in the first place must also be considered when interpreting revenue figures in CbC reports.

13. OECD, Corporate Tax Statistics, Anonymised and aggregated Country-by-Country reporting data Frequently Asked Questions, available at: https://www.oecd.org/tax/tax-policy/corporate-tax-statistics-country-by-country-reporting-FAQs.pdf

14. "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



What does the data show?

The aggregated revenue presented in the CbC data of the participating MNCs amounts to €3.2tn (2021: €2.0tn). However, if only non-related party revenues are considered, this amount is reduced to €1.8tn (2021: €1.2tn). Therefore, revenues from related parties, totalling €1.1tn[15] (2021: €635.5bn), corresponded to 62.5% (2021: 54.1%) of non-related party revenues for the 43 (2021: 35) MNCs, giving an incomplete view as to how much revenue was generated.

When reviewing the information disclosed in the annual accounts of the 43 (2021: 35) MNCs, it was found that consolidated non-related party revenues were €2.1tn, slightly higher than the €1.8tn disclosed in the CbC reports of the same companies. As mentioned above, CbCR data contains aggregate figures. Differences between these and the consolidated figures found in financial statements are therefore always to be expected. Additionally, the definition of revenues for CbCR purposes is widely drawn and includes many profit and loss credits that would not normally be considered to be revenue or turnover for financial accounting purposes. CbCR also requires the results of certain types of entities, such as partnerships, to be included twice within the data by separately listing them under the 'stateless' category, whereas financial statements account for these results only once.

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.

What does the data show?

According to the CbC data of the 43 (2021: 35) companies, global profits before tax amounted to €307.4bn (2021: €186.5bn). Out of this total, €241.9bn (2021: €120.1bn) arose in the Global North and €66.1bn (2021: €61.1bn) in the Global South. In the CIT paid and accrued section below, tax ratios in relation to profits are discussed in more detail.

Per the information disclosed in the annual accounts of these MNCs, the total profits before tax amounted to €320.7bn. Similarly to revenues, the main reason for the difference between the figures disclosed under CbCR and in financial statements are most likely the consolidation adjustments in financial statements, which eliminate intercompany transactions and balances. These are not mirrored in CbC reports that aggregate data by jurisdiction. Another common reason for the discrepancy between the profits reported under CbCR and presented in financial statements is the existence of joint ventures or minority held entities. Profits from joint ventures and entries relating to minority held entities are included in financial statements but are excluded from CbC reports, as joint ventures are not considered constituent entities of a MNC group when reported using the equity method.

15. Related and third-party revenues do not sum to the total revenue figure of €3.2tn 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.

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 on the profits for that year. However, this amount does not include prior year adjustments[16] arising from the filing of tax returns ("return to provision" or "true-up" amounts), nor deferred taxes[17] or payments arising from tax audits.

What does the data show?

According to the CbC data of the 43 (2021: 35) companies, CIT paid amounted to €107.3bn[18] (2021: €27.6bn). Dividing by the global profits before taxes of €307.4bn (2021: €186.5bn), a CTR of 34.9% (2021: 14.8%) is obtained. The global average statutory CIT rate weighted by GDP among 180 jurisdictions is (25.4%).[19]

When reviewing the information disclosed in the annual accounts of these companies, cash tax paid in 2022 amounted to €111.4bn.

The main reason for the difference between cash tax paid as reported under CbCR and disclosed in financial statements are withholding taxes on intercompany dividends which are included in financial reporting and excluded from CbCR data.

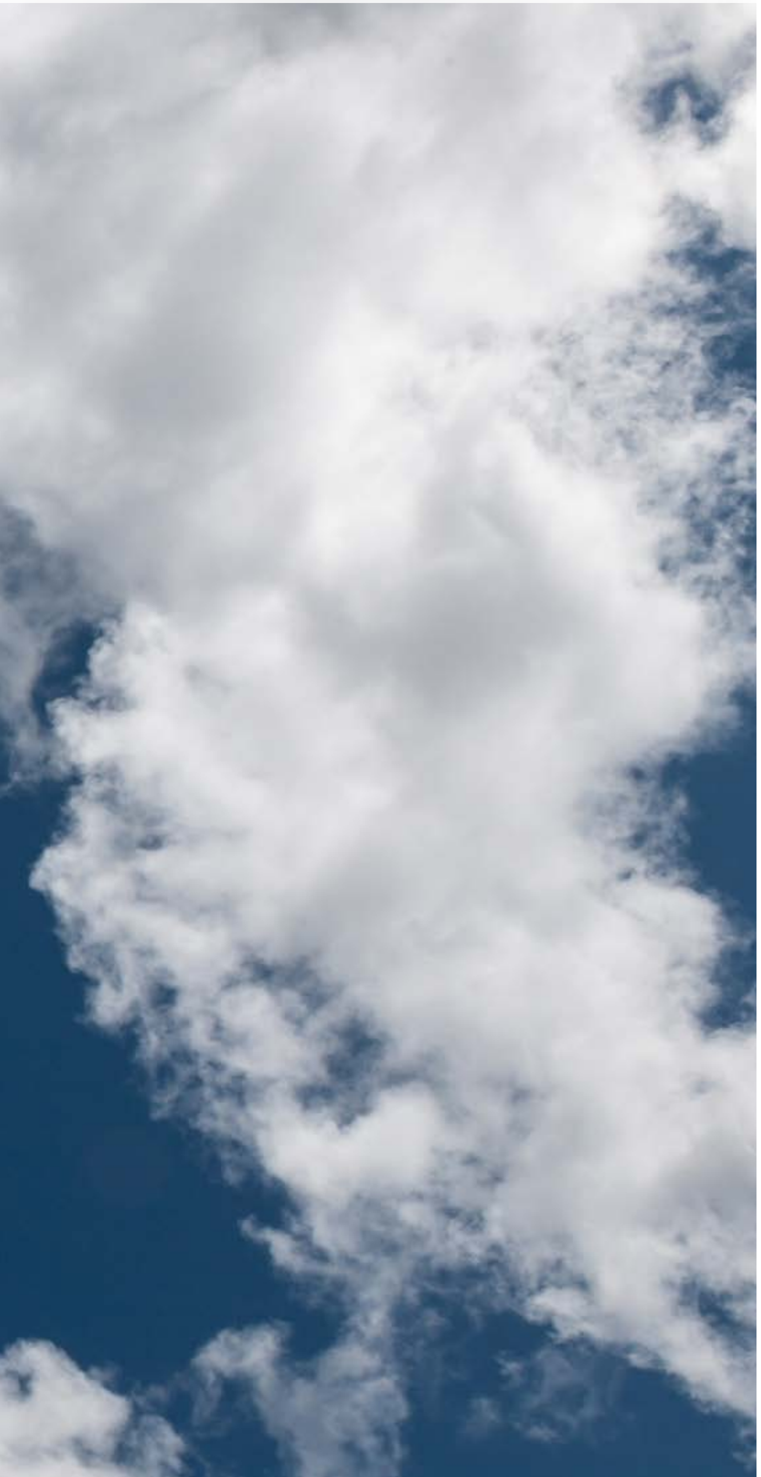
Tax accrued reported in the CbC data of participating companies totalled €112.3bn. Looking at the annual accounts of these same companies, total tax accrued amounted to €127.0bn. The amount disclosed in the accounts is higher because tax accrued under CbCR only includes current tax in relation to the profit or loss of the period, whereas the total income tax expense in financial statements includes deferred tax, provisions on uncertain tax positions and prior period adjustments. Furthermore, the accounting treatment of withholding taxes influences the tax accrued figure in CbC reports. If withholding taxes are included within operating expenses rather than the tax line, they will decrease the tax accrued figure in CbC data.

Taking profits before tax and the total income tax expense, or tax accrued, from the financial statements of participating companies the average ETR corresponds to 24.6% (2020: 26.1%). This figure takes into consideration amounts such as prior year adjustments, deferred taxation and payments arising from tax audits, which the tax accrued figure under CbC reporting does not consider.

16. 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.
17. 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.
18. Out of this amount, €105.0bn relates to countries for which TTC data was also available. As highlighted in the figure contained in section 2 of this study, the CTR for countries where TTC and CbCR data were available at the same time is 23.1%.
19. Tax Foundation, Corporate Income Tax Rates around the World, 2022. Available at: https://taxfoundation.org/data/all/global/corporate-tax-rates-by-country-2022/
The non-weighted worldwide average statutory corporate income tax rate, measured across 180 jurisdictions, is 23.4%.

4

Analysing the Country-by-Country Data Adopting Risk Indicators



When it was introduced by the OECD, CbCR was envisioned as a risk assessment tool for tax authorities to assist in high-level risk assessment of transfer pricing and other BEPS-related risks. Mandatory pCbCR opens companies' CbC reports to scrutiny by a much wider set of stakeholders. Both tax authorities and other stakeholders accessing public CbC reports can decide to analyse the data and compare it to reports from other companies. Therefore, MNCs can anticipate the questions arising from such scrutiny and comparison by performing a risk analysis on their CbC data.

To illustrate how CbC data can be leveraged to have data rich conversations in relation to tax risk and identify challenges or enquiries from stakeholders, the CbC data of the 43 study participants was used to calculate averages per company in each jurisdiction for which CbCR data was available. The dataset containing the averages was then run through PwC's Tax Risk Profiling Tool to gain insight into how CbC datasets can be leveraged to identify potential risks.

This tool is designed to mirror the risk analysis that tax authorities and other stakeholders might conduct on a company's dataset, aiming to identify jurisdictions that deviate from the norm and other anomalies.

As highlighted in section 3 of this report, the internal identification and analysis of outliers prior to data publication equip tax teams with a deeper understanding of the dynamics influencing the company's economic activities in these jurisdictions. This understanding is crucial for preparing comprehensive disclosures that elucidate the data.

PwC's Risk Profiling Tool contains twelve built-in risk indicators which can be used to assess risks in the CbCR dataset. Out of the twelve indicators, eight are listed below. These risk indicators should be considered in the context of the group's overall operating model, industry context and business activities in a specific jurisdiction. The presence of any of the below risk factors may serve as an indicator that further analysis and investigation is needed to gain comfort over the data in that jurisdiction, or that publishing additional narrative could facilitate the correct interpretation by stakeholders.

The average data presented in this section serves illustrative purposes only.

Risk indicators

1. High profit – low current tax rate (CuTR)

This indicator looks at the CuTRs of territories where profit before tax is higher than the average profit before tax for the dataset. A territory with disproportionately high profits and a low CuTR may prompt stakeholders to inquire about the rationale behind the lower tax rates applied to these profits.

2. High profit – Oxfam listed

Similarly to the previous risk indicator, this analysis looks at territories where profit before tax is higher than the average profit before tax for the dataset and the territory is Oxfam listed[20]. Such lists can be subjective, and there are many non-tax reasons that companies operate in low tax jurisdictions. Without further narrative explaining these reasons, stakeholders may question the amount of profits earned in these territories. It is now common for large MNCs to discuss their operations in tax havens or low tax jurisdictions. As of March 2023, 57 members of the FTSE100 make voluntary disclosures around their operations in tax havens, either stating that they do not have them, or outlining the reasons for their operations in these jurisdictions.[21]

Figure 3 opposite shows average profit before tax in Oxfam listed territories.

3. Low profit – high activity

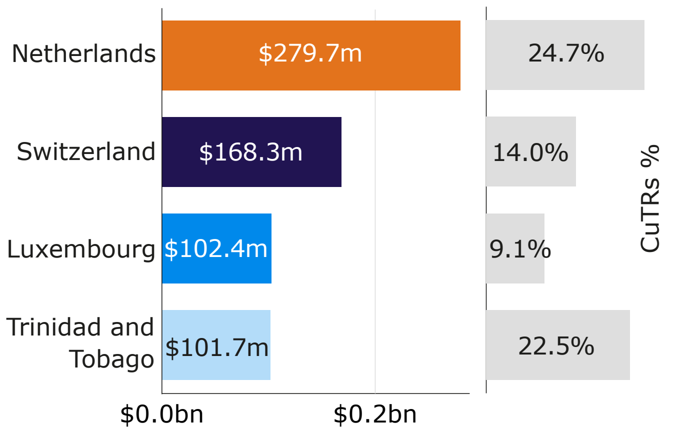
Analysis of whether a territory's profits are lower than the average profit before tax for the dataset and whether the territory's 'activity' is greater than the average activity across the dataset.

The level of 'activity' could be determined by looking at whether the number of employees, unrelated party revenue, and tangible assets are greater than the average for the dataset. There are many reasons, such as operational costs, pricing strategy and economic factors which would explain lower profits in jurisdictions with high activity. Developing an understanding of these territories and reasons would allow companies to confidently answer questions from stakeholders.

4. CuTR below 15%

Unlike ETRs, which include deferred taxes and are derived from annual accounts, the CuTR is calculated exclusively from CbCR data by dividing the CIT accrued by the profits before taxes. Identifying jurisdictions with low CuTRs and providing context can prevent misinterpretations by stakeholders.

Figure 3: Profit before tax in Oxfam listed territories



Source: Study participants, based on an average by company basis. Top 4 territories shown. Other territories include: Hong Kong, Bahamas, Bermuda, Panama, Jersey, Guernsey, Isle of Man, Malta, Cyprus, Gibraltar and Mauritius.

These numbers, sourced from study participants and averaged on a company basis, may initially suggest that these territories are highly profitable locales for businesses. However, a deeper analysis reveals that such figures can be influenced by a myriad of accounting and tax practices that do not necessarily result in additional CIT payments.

For instance, the presence of losses carried forward from previous years can significantly reduce the taxable profit in the current year. Moreover, the discrepancy between GAAP and tax accounting rules can lead to substantial differences in reported profits.

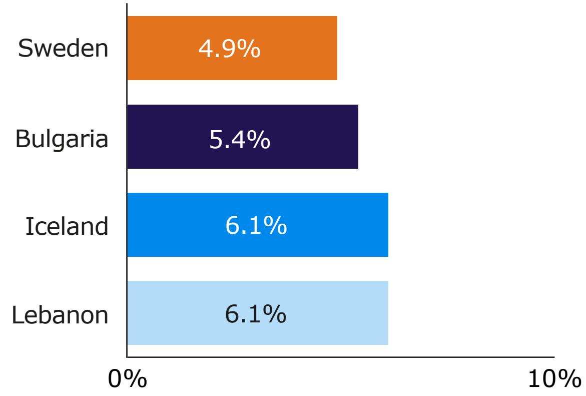
Accelerated depreciation is one such area where tax laws may allow companies to depreciate assets more rapidly for tax purposes than for financial reporting. This accelerated depreciation can result in lower taxable income, as the higher depreciation expense reduces the profit before tax, even though the company's cash flow and accounting profit remain unaffected.

20. Oxfam's list of countries was adopted for illustrative purposes. It has been taken from Oxfam's briefing paper 'Tax Battles: The dangerous global race to the bottom on corporate tax", available at https://policy-practice.oxfam.org/resources/tax-battles-the-dangerous-global-race-to-the-bottom-on-corporate-tax-620159/.

21. Trends in voluntary tax reporting: A review of the FTSE350 for 2022/2023 year ends, available at: https://www.pwc.co.uk/tax/assets/pdf/laying-foundations-of-next-round-of-tax-transparency-report-2023.pdf

Figure 4 below shows some of the territories with an CuTR, based on the average profit before tax and tax accrued per jurisdiction, below 15%.

Figure 4: Jurisdiction with CuTRs below 15% calculated using data from CbC reports



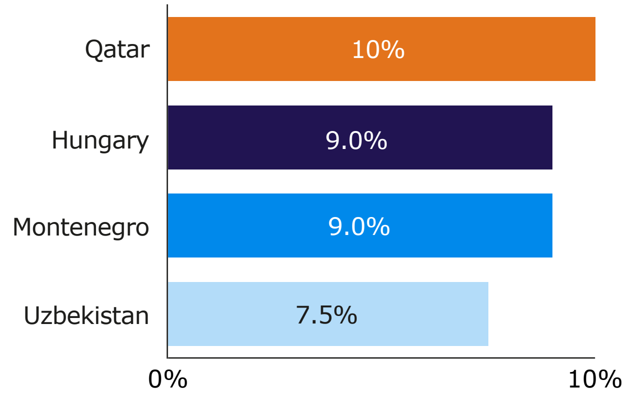
Source: Study participants, based on average CIT accrued and profits by company basis. Selected countries displayed. Other countries include: British Virgin Islands, Jersey, Togo, Isle of Man, USA, US Virgin Islands, Albania, Bermuda, Malta, Singapore, Qatar, Liechtenstein, Lithuania, Latvia, Mauritius, Benin, Luxembourg, UAE, Bosnia and Herzegovina, Canada, Belgium, Macao, Kosovo, Paraguay, Monaco, Kuwait, Panama, Switzerland, Vietnam, Moldova and Ecuador.

5. Statutory tax rate below 15%

Identifying jurisdictions with low statutory tax rates and offering narrative can clarify operations in these territories. The anticipated impact of Pillar Two on these jurisdictions should also be considered.

Figure 5 below shows a selection of countries with a statutory tax rate below 15%.

Figure 5: Selection of countries with statutory tax rates below 15%



Source: Study participants, based on average CIT accrued and profits by company basis. Selected countries displayed. Other countries include: Cyprus, Gibraltar, Ireland, Liechtenstein, Macao, Moldova, Andorra, Bosnia and Herzegovina, Bulgaria, Kyrgyzstan, Macedonia, Paraguay, Barbados, Anguilla, Bahamas, Bahrain, Belize, Bermuda, British Virgin Islands, Cayman Islands, Guernsey, Isle of Man, Jersey, Kosovo, Liberia, Maldives, Mali, Marshall Islands, Mauritania, Nepal, New Caledonia, Niger, Puerto Rico, Seychelles, South Sudan, Tajikistan, Timor-Leste, Togo, Turks and Caicos Islands, UAE, Vanuatu, Wallis and Futuna Islands.

6. Tax delta above 10%

This indicator assesses whether the discrepancy between the statutory tax rate and the CuTR in a territory exceeds 10%. Highlighting such differences underscores the importance of identifying the drivers of the differences between these rates.

Figure 6 below shows a selection of countries where the difference between the statutory tax rate and CuTR, based on the CbCR data, was greater than 10%.

Figure 6: Tax Delta above 10%

Country	Statutory Tax Rate	CuTR	Delta
Latvia	20.0%	8.0%	12.0%
Panama	25.0%	13.6%	11.4%
Lebanon	17.0%	6.2%	10.9%
Ecuador	25.0%	15.0%	10.5%

Source: Statutory tax rates by jurisdiction and study participants, based on an average by company basis. Selected countries shown. Other countries include: Mali, Montenegro, Guinea, Russia, Finland, Mozambique, Guyana, Senegal, Zambia, Suriname, Austria, Ukraine, Malta, Gambia, Burundi, Ethiopia, Saint Lucia, Sierra Leone, Myanmar, Samoa, Mongolia, USA, Greenland, Sao Tome and Principe, Curacao, Benin, US Virgin Islands, Guam, Monaco, Afghanistan, Laos, Sweden, Ireland, Luxembourg, Canada, Iraq, Singapore, Iceland, Belgium, Albania and Gibraltar.

7. Current tax rate is lower than the group current tax rate

This risk indicator tests whether a jurisdiction's CuTR is less than the average CuTR for all jurisdictions in the dataset. There are many reasons why the CuTR in a particular jurisdiction may be lower than the average CuTR. This analysis helps identify outlying jurisdictions for which additional disclosures may help provide a more comprehensive picture.

Figure 7 below shows a selection of countries where the CuTR is lower than the average CuTR based on the data provided by study participants.

Figure 7: Countries with CuTRs lower than the average across all jurisdictions

Country	CuTR	Group CuTR
Albania	1.9%	11.8%
Bermuda	2.0%	11.8%
Malta	2.5%	11.8%
Singapore	3.0%	11.8%
Sweden	4.9%	11.8%
Bulgaria	5.4%	11.8%
Iceland	6.1%	11.8%

Source: Study participants, based on an average by company basis. Selected countries shown. Other countries include: Mali, Montenegro, Russia, Guinea, Finland, Ukraine, Austria, Mozambique, Senegal, Myanmar, Ireland, Zambia, Mongolia, Samoa, Gibraltar, Afghanistan, Bahamas, Bahrain, Barbados, Burundi, Cayman Islands, Curacao, Ethiopia, Gambia, Greenland, Guam, Guernsey, Guyana, Iraq, Laos, Mauritania, Niger, Saint Lucia, Sao Tome and Principe, Sierra Leone, Suriname, Timor-Leste, Vanuatu, British Virgin Islands, Jersey, Togo, Isle of Man, USA, US Virgin Islands, Lebanon, Qatar, Liechtenstein, Lithuania, Latvia, Mauritius, Benin, Luxembourg, UAE, Bosnia and Herzegovina, Canada.

The figures presented in the sample data reveal discrepancies between statutory tax rates and the CuTR reported by MNCs in various jurisdictions. For instance, Latvia's statutory tax rate stands at 20%, yet the CuTR is reported at 8%, resulting in a delta of 12%. Similarly, Panama, Lebanon, and Ecuador exhibit deltas of 11.4%, 10.9%, and 10.5%, respectively.

The data also highlights jurisdictions where the CuTR is significantly lower than the group average CuTR of 11.8%, such as Albania at 1.9% and Bermuda at 2.0%.

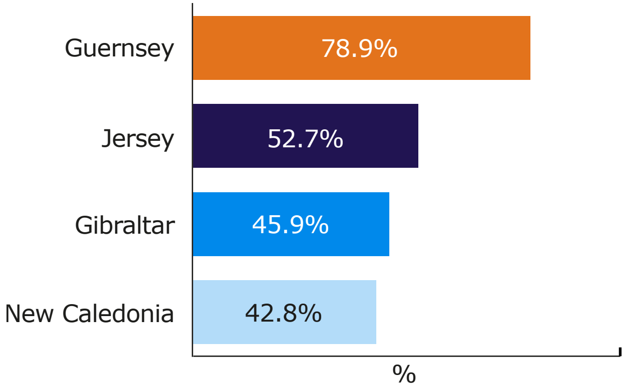
The differences between the CuTR and statutory rates may stem from local tax legislation that allows for the acceleration of expense recognition or the deferral of income relative to the GAAP in group financial statements. Additionally, the timing of tax payments, specific tax incentives, losses carried forward from prior fiscal periods, and differences in the determination of the taxable base are among the many factors that can influence these rates. These elements collectively contribute to the lower reported CuTR in certain jurisdictions.

8. Profit increased whilst the statutory tax rate remained below 15%

This risk indicator tests whether profit before taxes has increased in the current year, compared to prior year, and then whether the country has a statutory tax rate of less than 15%.

Figure 8 below shows a selection of countries where the risk above has applied to the average base company, considering the data provided by study participants.

Figure 8: Profit before taxes increase (2021-22) whilst statutory tax rate remained below 15% – Profit margins shown



Source: Study participants, based on average profits and turnover by company basis. Selected countries displayed. Other countries include: Isle of Man, Togo, Bosnia and Herzegovina, Macao, Paraguay, British Virgin Islands, Seychelles, Bulgaria, Uzbekistan, Puerto Rico, Bermuda, Cyprus, Kosovo, Hungary, Moldova, UAE, Bahrain, Macedonia, Bahamas, Qatar, Vanuatu and Liechtenstein.

The implementation of pCbCR signifies a pivotal change in the corporate transparency and tax risk management landscape. MNCs are now tasked with navigating a scenario where their tax data is exposed not only to tax authorities but also to a broader audience, including investors, analysts, and the general public. This heightened exposure necessitates a proactive stance in tax risk assessment and the articulation of tax positions. By leveraging risk profiling tools, MNCs can critically evaluate their tax data, pinpoint areas of concern, and address these proactively. This approach not only ensures compliance but also fosters trust with stakeholders by showcasing a dedication to transparency and responsible tax practices. In the end, the capacity to present clear, contextual information alongside raw data will be instrumental in influencing perceptions and understanding of a company's tax contributions and economic presence in various jurisdictions.

A summary of the risk assessment process

In summary, if the aggregated data covered a single group, this risk assessment process would raise questions regarding the CbCR data for several countries. Providing a clear narrative to accompany and elucidate the figures is essential in mitigating the risk of adverse publicity and challenges. It is through this narrative that companies can effectively communicate the complexities of their tax positions, thereby enhancing stakeholder understanding and confidence in the company's tax practices.

5

Some frequently asked questions on Country-by-Country Reporting data

The implementation of mandatory pCbCR is primarily aimed at facilitating a greater level of public scrutiny over the geographic distribution of the profits of large MNCs[22] and the corresponding CIT paid. The operations of these entities in jurisdictions known for their low tax burdens, alongside instances where portions of profits have escaped taxation altogether, are persistently monitored. It is anticipated that the data derived from pCbCR will be instrumental in providing clarity on such matters as:

- The group's operations in non-cooperative jurisdictions.
- The nontaxation of certain profits.

The analysis below discusses these topics based on the information collected from the participating companies.

Operations in non-cooperative jurisdictions – EU Blacklist

The EU list of non-cooperative jurisdictions ("EU Blacklist") for tax purposes is part of the EU's external strategy for taxation and aims to contribute to the ongoing efforts to promote good tax governance worldwide.[23] 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 2024,[24] 12 jurisdictions are included in the list of non-cooperative jurisdictions: American Samoa, Anguilla, Antigua and Barbuda, Fiji, Guam, Palau, Panama, Russia, Samoa, Trinidad and Tobago, US Virgin Islands, Vanuatu.

The OECD CbCR templates of the 43 (2021: 35) companies consisted of 1,506 (2021: 1308) individual country operations. Out of the 1,506 (2021: 1308) country operations, 34 (2021: 37) were in 8 (2021: 10) countries on the EU list. There can be several valid and non-tax reasons why MNCs have operations in these jurisdictions, varying from commercial operations to structural legacy.

It is worth noting that despite the significant increase in the number of participating companies, the total number of operations in non-cooperative jurisdictions has decreased. While this is partly due to the EU Blacklist now containing fewer jurisdictions, 12 as opposed to 16, than at the time of publishing the prior year edition[25] of this report, it also shows that most companies do not have substantial operations in these jurisdictions.

The table below shows the aggregate data for the operations of the 43 (2021: 35) companies in the 8 (2021: 10) countries on the EU non-cooperative jurisdictions list in the data provided, namely Fiji, Guam, Panama, Russia, Samoa, Trinidad and Tobago, US Virgin Islands and Vanuatu. When considered in the context of global operations, only a very small proportion of the total transactions of the 43 study participants are conducted in countries on the EU Blacklist.

22. 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
23. The EU list was chosen as a reference point due to its objective nature and EU origin.
24. EU Council, Taxation: EU list of non-cooperative jurisdictions, available at https://www.consilium.europa.eu/en/policies/eu-list-of-non-cooperative-jurisdictions/
25. EBTF, 'Tax Transparency & Public Country-by-Country Reporting: a study of the largest companies headquartered in Europe', available at https://ebtforum.org/cbcr/

Table 2: Operations in countries on the EU blacklist of non-cooperative jurisdictions

CbCR Heading	All countries	Non – cooperative jurisdictions	% in relation to total
	2022	2022	2022
Related-Party Revenues	€1,122.8bn	€6.5bn	0.6%
Third-Party Revenues	€1,796.7bn	€15.1bn	0.8%
Total Revenues	€3,245.6bn	€22.1bn	0.7%
Profit Before Tax	€307.4bn	€3.9bn	1.3%
CIT Accrued	€112.3bn	€1.4bn	1.3%
CIT Paid	€107.3bn	€1.4bn	1.3%
Number of Employees	2.3m	28k	1.2%
Accumulated Earnings	€1,260.0bn	€2.3bn	0.2%
Stated Capital	€2,812.4bn	€3.9bn	0.1%
Tangible Assets	€1,167.6bn	€10.4bn	0.9%

Source: Study participants, based on an aggregated basis by jurisdiction.

Non-taxation of profits

Individual company data shows that ratios of cash tax paid to profit ranged from – 20.8% (2021: – 309.3%) to 77.3% (2021: 72.5%).[26] On an aggregate level there were 12 (2021: 11) countries where profits were made but no CIT was paid on those profits. The table below shows the data for all countries where a study participant generated profits but paid no CIT in 2022.

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 to be paid earlier (generating deferred tax assets) or later (generating deferred tax liabilities).

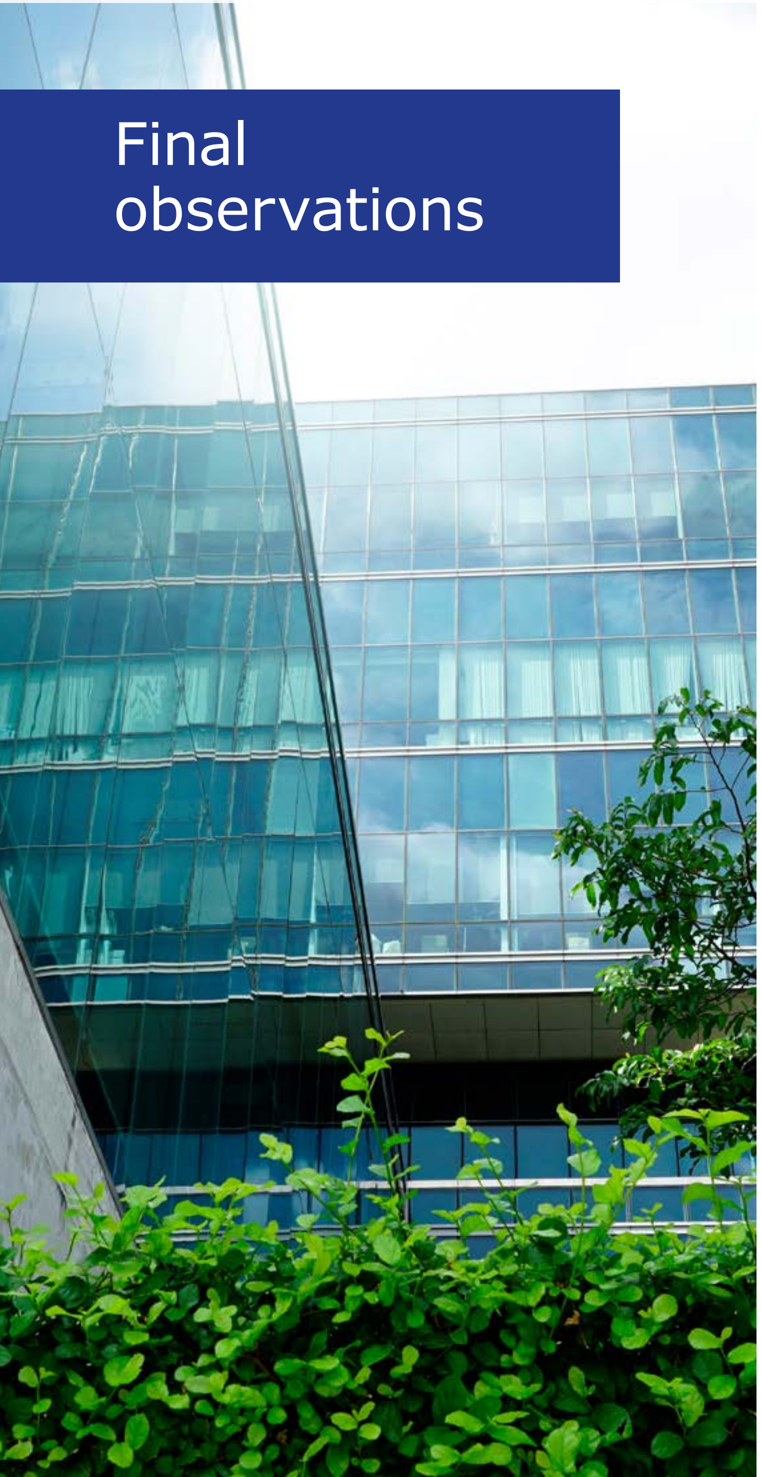
Table 3: Operations in countries where no CIT was paid

CbCR Heading	All countries	Countries where no CIT is paid	% in relation to total
	2022	2022	2022
Related-Party Revenues	€1,122.8bn	€22.6bn	2.0%
Third-Party Revenues	€1,796.7bn	€14.6bn	0.8%
Total Revenues	€3,245.6bn	€57.2bn	1.8%
Profit Before Tax	€307.4bn	€13.0bn	4.2%
CIT Accrued	€112.3bn	€1.7bn	1.5%
CIT Paid	€107.3bn	€0bn	0.0%
Number of Employees	2.3m	73k	3.2%
Accumulated Earnings	€1,260.0bn	€-12.0bn	-1.0%
Stated Capital	€2,812.4bn	€21.0bn	0.7%
Tangible Assets	€1,167.6bn	€10.1bn	0.9%

Source: Study participants, based on an aggregated basis by jurisdiction.

Given the above, without further information it is difficult to explain why there was no CIT paid on the profits of €13.0bn (2021: €9.4bn) shown in the table above, highlighting, once again, the limitation of the OECD CbCR template filings.

26. Median: 22.3%; Average: 23.1%. Calculated based on CIT paid. Please note that CIT could have been accrued but not paid in certain countries



Final observations

This report has examined the implications of pCbCR for MNCs operating in Europe and beyond, as well as the interactions between CbCR and TTC data. It has highlighted the challenges and opportunities that arise from the increased transparency and scrutiny of tax data, and the importance of preparing a clear and comprehensive narrative to accompany CbC reports. It has also explored how CbCR data will be central to the OECD Pillar Two safe harbours and the need for proactive compliance and data quality.

The ever-evolving scrutiny on the tax affairs of MNCs both from tax authorities and wider groups of stakeholders means that MNCs will benefit from analysing their CbCR data, identifying potential risk indicators and outliers, and benchmarking their performance against industry peers. Voluntary disclosure that could enhance the understanding and credibility of the tax data, such as reconciling CbCR data with financial statements, explaining the operations in non-cooperative jurisdictions, and disclosing the TTC and other ESG metrics could also assist in creating a coherent narrative.

As the tax transparency landscape continues to evolve, MNCs will need to adapt and align their tax strategies, governance and reporting with the expectations and requirements of various stakeholders. By embracing the opportunities and challenges of pCbCR, MNCs can demonstrate their commitment to responsible tax practices and contribute to a more balanced and informed tax debate.

Appendices

Appendix A – Index of abbreviations

BEPS	Base Erosion and Profit Shifting
CbC	Country-by-Country
CbCR	Country-by-Country Reporting
CIT	Corporate Income Tax
CRD-IV	Capital Requirements Directive IV
CSRD	Corporate Sustainability Reporting Directive
CTR	Cash Tax Rate
CuTR	Current Tax Rate
EBTF	European Business Tax Forum
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
QDMTT	Qualified Domestic Minimum Top up Tax
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 – Alternative reporting standards for multinationals and other publicly available data

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 pCbCR (GRI 207 tax).[27] 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. 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 2022 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 pCbCR as one of its metrics, replacing it with TTC. The paper 'Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation'[28] 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.[29] 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.

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 pCbCR database, which is publicly available.[30] In the report, they conclude that the pCbCRs 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.

27. https://www.globalreporting.org/standards/standards-development/topic-standard-for-tax/
28. https://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf
29. https://stats.oecd.org/Index.aspx?DataSetCode=CBCR_TABLEI
30. 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, medium-sized and large subsidiaries and comparable branches of non-EU headquartered groups (i.e., subsidiaries that, at the balance sheet date, exceed two of the following three criteria): • Total assets: EUR 4 million; • Net turnover: EUR 8 million; • Average number of employees: 50. In the case of branches, only the net turnover is observed.
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 grey and blacklisted jurisdictions)
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:

	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
Tax Jurisdiction	Unrelated Party	Related Party	Total							