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The use of the *BEPS Country by Country Report* for the purpose of representing the structure of MNEs and recording the economic flows between units for estimating GDP and GNI

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Introduction

- Country-by-Country reporting was implemented as part of Action 13 of the OECD/G20 BEPS Project to support jurisdictions in fighting base erosion and profit shifting (BEPS).
- While the main purpose of Country-by-Country Reports (CbCRs) is supporting tax administrations in high-level detection and assessment of transfer pricing and other BEPS-related risks, data collected from CbCRs can also play a relevant role in supporting the economic and statistical analyses of multinational enterprises (MNEs).
- The contribution of this work is to demonstrate, for the first time in the currently developed literature, how the use of the BEPS Country by Country Report - with reference to both qualitative information and quantitative data - can allow getting to an overall representation and exhaustive analysis of a MNE, the identification of the economic flows between the units of a multinational group and, thus, obtaining more information for a correct estimate of the GDP (Gross Domestic Product) and the GNI (Gross National Income).
- This work describes:
 - the analysis carried out on the features of the BEPS Country by Country Report and on the information and data that can be inferred from it;
 - the methodology that has been defined and to be applied for the use of the BEPS Country by Country Report;
 - the application to a case study and the obtained results.

Base Erosion and Profit Shifting - BEPS

- The "Base Erosion and Profit Shifting - BEPS" project has been developed by OECD at the instigation of the G20 to counter "the erosion of the tax base and the shifting of profits". It proposes to bring out the tax base of multinational enterprises (MNEs) in the jurisdictions where activities are carried out, in proportion to value creation. "Base Erosion" indicates the loss of tax revenue of a country caused by "profit shifting", i.e. the reallocation of the tax base of companies obtained through the creation of contractual and corporate structures in order to minimize the levy on the company's overall income.
- The BEPS action plan is divided into 15 points (Action). Action 13 calls for the development of "rules regarding transfer pricing documentation to enhance transparency for tax administration, taking into consideration the compliance costs for business. The rules to be developed include a requirement that MNEs provide all relevant governments with the needed information on their global allocation of income, economic activity and taxes paid among countries according to a common template".
- Based on BEPS Action 13, large multinational enterprises are required to prepare a country-by-country report, the so-called "**BEPS Country-by-Country Report**", with aggregated data on the global breakdown of income, profit, taxes paid and economic activity between the tax jurisdictions in which they operate. The report is shared with tax administrations in such jurisdictions, for the purpose of determining transfer pricing and BEPS risk assessments.

BEPS Country by Country Report (1/4)

- Under the BEPS the MNEs are required to draw up “BEPS Country-by-Country Report” (CbCR). More specifically, MNEs with annual consolidated group revenue equal to or greater than 750 million euros (or an approximately equivalent amount in local currency) are required to draft the CbCR, annually and per each tax jurisdiction in which they operate, indicating the amount of revenue, profit before income taxes, income taxes paid and accrued, the number of employees, the declared capital, the accumulated earnings and the tangible assets in each tax jurisdiction (according to the model shown in Table 1).

Model template for a Country-by-Country Report

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

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

Source: OCSE

BEPS Country by Country Report (2/4)

- In addition, MNEs are required to identify each entity within the group carrying on business in a particular jurisdiction tax and to provide an indication of the business activities in which each entity is involved (according to the model shown in Table 2).

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

Name of the MNE group: Fiscal year concerned:														
Tax Jurisdiction	Constituent Entities resident in the Tax Jurisdiction	Tax Jurisdiction of organisation or incorporation if different from Tax Jurisdiction of Residence	Main business activity(ies)											
			Research and Development	Holding or Managing intellectual property	Purchasing or Procurement	Manufacturing or Production	Sales, Marketing or Distribution	Administrative, Management or Support Services	Provision of Services to unrelated parties	Internal Group Finance	Regulated Financial Services	Insurance	Holding shares or other equity instruments	Dormant
	1.													
	2.													
	3.													
	1.													
	2.													
	3.													

Source: OCSE

BEPS Country by Country Report (3/4)

- In Italy, according to the law n. 208/2015, implemented by the Decree 23/2017 of the Ministry of Economy and Finance, the MNEs send the data annually to the Tax Revenue Agency relating to the jurisdictions of operation of its group in accordance with the model of CbCR reporting.
- According to Decree 23/2017, a **“group of multinational companies or group multinational”** is defined as :
 - ***“any group, other than an excluded multinational group, which includes two or more companies with tax residence in different jurisdictions, or an enterprise resident for tax purposes in one jurisdiction and subject to tax in another for the activities carried out there through a permanent establishment”***.
- In particular, an **“entity belonging to the group”** is intended as:
 - a) a separate enterprise of a multinational group that is included in the Consolidated Financial Statements of a group for financial reporting purposes, or that would be included if the stakes in the capital of that company were traded on regulated markets;
 - b) an enterprise excluded from the Consolidated Financial Statements of the multinational group solely because of its size or on the basis of the principle of materiality;
 - c) a permanent establishment of a separate company of the multinational group referred to in letters a) or b) above, required to draw up separate financial statements for financial reporting purposes or for regulatory, tax or auditing purposes internal management.

The **“reporting entity”** is defined as “the ultimate parent company, the deputy of the parent company or any entity belonging to the group, required to submit in its own jurisdiction of tax residence a CbCR on behalf of the multinational group”.

BEPS Country by Country Report (4/4)

- The duty to submit the CbCR to the Tax Revenue Agency is in charge with:
 - **each parent company of a multinational group residing in the territory of the Country;**
 - **an entity belonging to the multinational group different from the parent company group leader when:**
 - a) the entity belonging to the multinational group is resident within the territory of the Country;
 - b) one of the following conditions occurs:
 - the parent company of the multinational group is not obliged to present the CbCR in its own jurisdiction of tax residence;
 - in the parent company's tax residence jurisdiction an international agreement is in force with Italy, but on the deadline date for the declaration submitting, there is not any specific agreement in force providing for the automatic exchange of country-by-country reports;
 - there has been a systemic default of the jurisdiction of residence of the parent company, communicated by the Tax Revenue Agency to the entity belonging to the multinational group resident in the territory of the Country.

As established by Decree 23/2017, starting from the tax period beginning on 1st January 2016, the “parent company of a multinational group” or other group entity as specified above residing in the territory of the Country is obliged to submit a CbCR to the Tax Revenue Agency.

Methodology (1/3)

- The developed methodology is applicable and extendable to any MNE for which CbCR data and other statistical and administrative sources are available at Statistical Offices and Central Banks.

Main sources:

- CbCR
- Consolidated Financial Statements
- EGR (Euro Groups Register on multinational enterprise groups) – Istat
- Orbis – Bureau Van Dijk
- Survey on the economic accounts of enterprises - Istat
- Survey on small and medium-sized enterprises - Istat
- Foreign trade survey - Istat
- Statistical survey on research and development in enterprises – Istat
- Survey on the turnover and orders of the industry - Istat
- Balance of payments – Bank of Italy

The joint use of the CbCR together with other available sources has made it possible to get to the mapping of the overall structure of the MNE and to a first representation of the main economic flows.

Methodology (2/3)

The methodology consists of **three steps**:

Step 1)

The following information is identified and extracted from data reported in the CbCR:

For each country:

- 1) each entity belonging to the group as a company:** each **company** operating in the territory, together with the indication of the activity it carries out (based on those defined in the Tax Revenues Agency template), which is resident in the tax jurisdiction of the country;
- 2) each entity belonging to the group as a branch:** each **branch** (defined as Permanent Establishment - PE) operating in the territory with an indication of the activity it carries out (on the basis of those defined in Tax Revenues Agency template) and which is resident in the tax jurisdiction of the country;
- 3) for each branch** (PE), in addition to the tax jurisdiction in which it is located and operates, the tax jurisdiction of the legal entity to which it belongs;
- 4) the aggregated data of all entities belonging to the group** regarding revenues, profits (losses) before income taxes, income taxes paid and accrued, the declared capital, retained earnings, number of employees and tangible fixed assets other than cash or cash equivalents, separate between group's related parties (intra-group transactions) and unrelated parties (transactions with third parties);
- 5) for branches**, retained earnings are disclosed in the tax residence jurisdiction of the legal entity to which the branch belongs.

Methodology (3/3)

Step 2)

The **link between the individual entities belonging to the group** reported in the CbCR and the **subsidiaries** reported in the Consolidated Financial Statements of the MNE allows to identify the **parent company** and the corresponding **percentage of control**.

Step 3)

The **joint use** of the CbCR data together with other available sources, such as EGR, Orbis, FATS, etc., allows to integrate the previous information getting to the **overall group structure** and to a first **representation of economic flows**.

National Accounts' microdata and Central bank of Italy's data make it possible integrating the previous information thus getting to the overall group structure and to a correct representation and registration of flows in National Economic Accounts and in Balance of Payments.

Case study and results (1/4)

- The methodology has been developed and applied to a MNE operating in the **energy sector**. This MNE publishes the CbCR on its website.

MNE Country by Country Report

AFRICA

COUNTRY 1	Total revenues	Profit (loss) before Income tax	Income Tax Paid (on Cash Basis)	Income Tax Accrued - current year	Stated capital	Accumulated Earnings	Number of Employees (number)	Tangible Assets other than Cash and Cash Equivalents
(€ thousand)								
Full year 2018	1,473,905	786,585	630,079	639,796	12		776	3,052,456
<i>Revenues - related party transaction</i>	<i>734,956</i>							
<i>Revenues - non-related party transaction</i>	<i>738,949</i>							

<u>MNE Group constituent entities included in the tax jurisdiction</u>	<u>Residence tax jurisdiction</u>	<u>Business activity</u>	<u>Eni business segment</u>
Entity 1	Netherlands	Manufacturing or Production	Exploration & Production
Entity 2	Netherlands	Manufacturing or Production	Exploration & Production
	Netherlands	Manufacturing or Production	Exploration & Production
...	United Kingdom	Manufacturing or Production	Exploration & Production
		Dormant	Exploration & Production
Entity n – Permanent establishment	Canada	Manufacturing or Production	Exploration & Production

Source: MNE CbCR

Case study and results (2/4)

A **database** integrating all information from various sources was built. Only some of the variables entered in the database are reported below.



COUNTRY x (x=1,2, ..., n)

MNE constituent entities	Resident Tax jurisdiction	Tax jurisdiction (= operational headquarters)	Business activity	Parent company	Branch	Presence in EGR	EGR_ID	NACE code	Other variables (value added, FDI, etc.)
Entity 1	X	X	X	X	Yes/No	Yes/No	X	X	...
Entity 2	X	X	X	X	Yes/No	Yes/No			...
Entity 3	X	X	X	X	Yes/No	Yes/No			...
...									
Entity n	X	X	X	X	Yes/No	Yes/No			...

Case study and results (3/4)

- Through the information of the CbCR it was possible to identify:
 - **a greater number of branches in Europe than those identified with the EGR source;**
 - **all branches in non-European countries.**

- For the MNE, with reference to 2018, have been identified about 100 branches:
 - **24% of the total branches in Europe;**
 - **76% of the total branches in non-European countries;**

Only 16% of the total branches of the MNE has been identified through EGR source and only with reference to European countries.



Case study and results (4/4)

The «information power» of the CbCR is greater than other information sources currently available.

In fact, CbCR data:

- guided and facilitated the analysis of the MNE in the world;
- provided data consistent with the MNE consolidated financial statement;
- made it possible interpreting statistical information that initially seemed inconsistent;
- have made it possible bringing into coherence information coming from the various sources.

Conclusions

The information and data that can be inferred from the CbCR have specific **innovative characteristics** compared to other existing sources and allow, above all, getting to a far more complete representation of the activities and flows of the MNEs.

In particular, they:

- have a **greater degree of geographic coverage** than other available sources (for instance compared to the Orbis source which has good coverage for European Union companies), as companies are required to report the activities they carry out for single jurisdiction in the world (therefore also United States, developing countries and investment hubs such as the UK);
- include for each country **data on reported profits and total revenues**, broken down by related and unrelated parties, with a greater degree of geographic coverage than other available data sources;
- provide **a clear and comprehensive representation of the multinational group**, as the information is declared directly by the MNE which therefore provides the information about its global activities together with the link between the “entities” within the group;
- provide information not only on the **activities carried out abroad** but also in **the country of tax residency**;
- allow **comparability between countries**, since the CbCR is developed according to an international standard.

Istat is evaluating the possibility of acquiring CbCR source from Italian Tax Revenue Agency in order to extend its application to all MNEs and to systematically use such source into the procedures for elaborating Registers, Structural Statics and National Accounts estimates.

Thank you

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