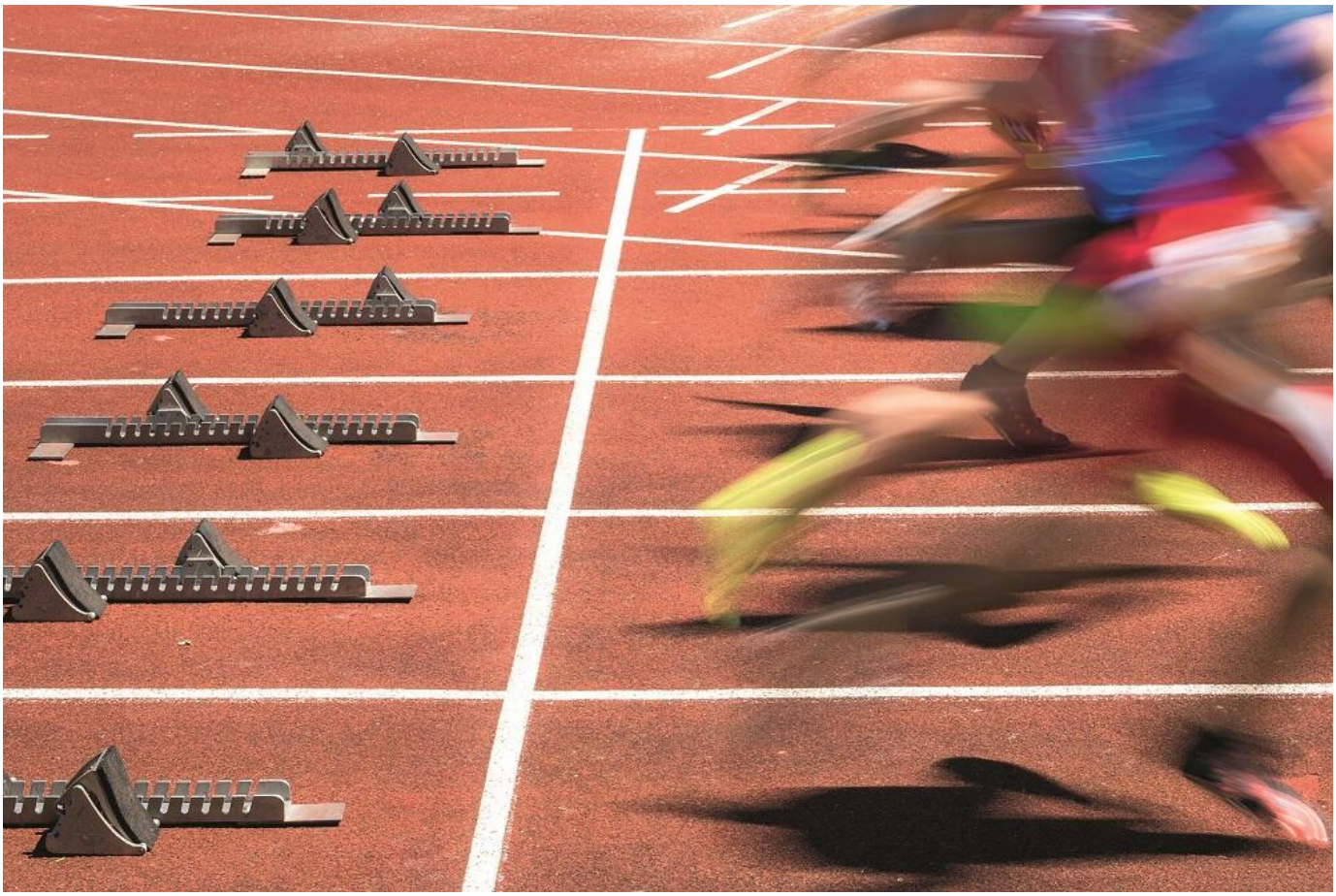
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International Tax | Large Corporate



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Andy Gent considers the challenges ahead for advisers dealing with the different stages of the Country by Country Report

Key Points

What is the issue?

The first Country by Country Reporting deadline is 31 December, and the results of a recent survey show that senior tax managers have more work ahead before they

can file successfully.

What does it mean to me?

Although advisers may be close to completing the data aggregation piece, many advisers have unanswered questions around how to submit the report to HMRC, and how to ensure the XML file will be accepted on deadline day.

What can I take away?

Practical guidance around how to manage the XML conversion piece and how to keep up with HMRC's and the OECD's requirements. This article also provides information on how advisers are preparing and what next steps they need to take between now and 31 December.

We have known that the OECD's Country by Country Reporting (CbCR) has been on the horizon for a few years now, but the first deadline is rapidly approaching and companies still have further work to do to be fully ready to file.

To create a picture of how companies are dealing with their reporting obligations we took a survey in Q3 2017, asking senior tax managers and transfer pricing professionals at multinational enterprises across the UK about their readiness for the new measurement. Although 50% of respondents are finalising their data aggregation piece, others have been preparing since 2015, and are looking ahead to fully understand HMRC's submission process.

As you would expect, early focus has been on data collation. Once this is established, the final piece is to submit the data in the right format. Although converting a document into XML is manageable with an internal IT team, there are concerns around viewing validation errors, and receiving support if there are any errors in the document on deadline day.

Navigating towards the first filing

Keeping up with the guidelines is an additional challenge for filers. 94% of respondents do not feel they have received sufficient support from local tax authorities, and are awaiting further clarification around some of the filing specifics and what the submission process will look like. One senior tax manager commented

that the HMRC guidelines provide little more information than the OECD guidelines, and another felt the lack of information suggested the measurement had been rushed.

With just four weeks to go until the first deadline, tax managers are having to keep up with both the OECD and HMRC to process any changes in the filing requirements. The OECD's September update clarified that all gains, income or other inflows shown in the financial statement should be counted as Revenue and reported in Table 1, a question which several tax managers raised with HMRC earlier in the year. The transitional relief has also been outlined for firms with a short accounting period, and they can expect to file at the same time as MNE Groups with a fiscal year ending on 31 December 2016.

There's a similar feeling towards the OECD's scope of reporting. Despite these recent updates, there are some questions around specifics of populating, such as language options for Table 3, and the exact scope and reporting requirement for Private Equity firms.

Partly, the lack of guidelines could be due to the deceptively simple layout of the OECD's templates. Compared to a filing requirement such as AIFMD, which has over 300 data points to populate, the Country by Country Report appears to comprise of just three sheets, asking for relatively simple-to-gather information. As any tax professionals working on the report will know, the reporting itself is more of an undertaking than it first appears, requiring multiple rows of data per entity within each jurisdiction and specific formatting around the data entered.

Most multinational enterprises will have produced documents that resemble the CbCR in the past, but are finding differences between existing reports and the OECD's XML schema. This may mean that data collection methods have changed, and firms will need to collect the required information from every one of their entities.

The OECD templates are available as a guideline, but do not provide sufficient detail to file. Specific schema requirements, for example reporting on the full address of each jurisdiction, are not built into the OECD templates and will need to be updated based on the most recent guidance. This is an ongoing process as there are likely to be changes to the XML schema and alterations in what the OECD requires.

This is in line with our previous experience of supporting clients through new filing requirements. There is often great uncertainty, and filers want to have access to as much information as possible to get ahead. The best way to prepare, even when guidelines are not as clear as anticipated, is to keep up with the latest news from local tax authorities.

Reporting in XML

The XML format was one of the first requirements confirmed by HMRC for CbCR.

Regulatory filers from MNEs are likely to be familiar with the iXBRL format used for annual returns to HMRC. Unlike iXBRL, XML is not a human readable format, and is used to standardise data, reducing the time needed to analyse information.

The survey found that 29% of firms anticipate producing and submitting the report to be the biggest challenge for CbCR. Encouragingly, no firms are considering an in-house XML conversion build.
This reflects a growth in understanding of the changing requirements of financial reporting and the complexity of updates. Firms who built their own XML schema tool for AIFMD found that they needed an alternative solution within a few filing deadlines. This is in part due to how frequently the regulators update their reporting requirements, which means updating in-house schemas and variances. Between physically updating the software and having the in-house knowledge to understand changes, an in-house build often requires two or three permanent staff members dedicated to the task, adding a significant cost burden to the reporting requirement.

Instead, 37% of firms are looking at external providers for the XML conversion, with the remaining 63% having not yet decided how they will obtain their output. This seemingly simple task can often be overlooked as part of the reporting process, and firms can wait until the last minute to decide on a vendor. Partnering with an external vendor will not only provide built-in validation rules to reduce the chance of errors on the HMRC portal, but it also means there’s expert support to call should the XML submission fail.

Next steps

By now, all firms filing by 31 December 2017 will have submitted a notification to HMRC. Groups must notify HMRC each year at the end of their reporting period if they intend to file, identifying whether the group will file to HMRC or another jurisdiction, who will be filing the report, and the unique taxpayer reference number.

The next step for most groups is to register via HMRC. Registration provides groups with a unique country-by-country ID number required to complete the XML submission. HMRC have suggested that groups should register at least one day prior to their filing deadline to ensure they receive this number in good time. However, Arkk Solutions are strongly advising clients to register further in advance to avoid any last-minute problems and to take a look at the HMRC portal before the filing deadline.

Registering early will also give groups the opportunity to perform a dry run. Testing that the XML file will be accepted on the portal and solving any errors well in advance of the filing deadline will ensure a smooth submission process in December. This is especially important as the team member submitting the report on the day may not have been responsible for aggregating and populating the templates, and will be less able to fix any technical or content errors.

For any new filing deadline, best practice is to start preparing early and keep informed of the regulator’s requirements. Tax Managers can perform a dry run on the HMRC portal to ensure that their XML submission will be accepted first time, and should also ensure they have sufficient support channels available should there be any validation errors on Sunday 31 December 2017.

The future

Looking at the reporting requirements, it is possible that the OECD are trialling a relatively light version of CbCR, with the view to expanding the depth of detail after a three-year review in 2020. Any changes to the reporting requirements will need to be reflected in changes to the templates. These will either be provided by your XML conversion partners or will need updating in-house by someone who understands the OECD’s and local regulators’ requirements in technical detail.