FREE WEBINAR ON
BEPS Risk Assessment
by applying data
Analytics on CbCR data

Speakers

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Webinar Details

- Language: English
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- Mode of instruction: Zoom

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APPLYING DATA ANALYTICS TECHNIQUES TO THE COUNTRY BY COUNTRY REPORTING DATA

An approach to BEPS risk assessment
COUNTRY BY COUNTRY REPORTING

• Country-by-country reporting (CbCR) is a reporting tool that requires MNEs meeting the threshold criteria to disclose certain information specified in the Action Plan 13 of the OECD BEPS Project. The format of Cbcr is included in the TP guidelines too.

• The CbCR mainly contains information about the global distribution of income, profits, taxes paid, capital and employees and certain other indicators of the location of economic activities in the tax jurisdictions in which the MNE group entities operate.

• The Handbook on Effective Tax Risk Assessment (HETRA) enlists certain indicators that countries could consider to assess the transfer pricing risk presented by an MNE on the data reported through the CbCR. An attempt has been made to integrate data analytics mechanics with various risk indicators (mainly those enlisted in HETRA) to lay down certain steps that can be followed for the purposes of BEPS risk assessment.

• Where such tools are available it would enable various stakeholders to interpret the data provided in the CbCR report with ease.

• CbCR data was used for Pillar 1/ Pillar 2 impact analysis.

• Public CbCR – EU Directive**


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

<table>
<thead>
<tr>
<th>Tax Jurisdiction</th>
<th>Revenues</th>
<th>Profit (Loss) Before Income Tax</th>
<th>Income Tax Paid (on cash basis)</th>
<th>Income Tax Accrued - Current Year</th>
<th>Stated capital</th>
<th>Accumulated earnings</th>
<th>Number of Employees</th>
<th>Tangible Assets other than Cash and Cash Equivalents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrelated Party</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Related Party</td>
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<td></td>
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<td></td>
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<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

*Source: OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2022*
Table 2. List of all the Constituent Entities of the MNE group included in each aggregation per tax jurisdiction

<table>
<thead>
<tr>
<th>Tax Jurisdiction</th>
<th>Constituent Entities resident in the Tax Jurisdiction</th>
<th>Tax Jurisdiction of organisation or incorporation if different from Tax Jurisdiction of Residence</th>
<th>Main business activity(ies)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Research and Development</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Holding or Managing Intellectual property</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Purchasing or Procurement</td>
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<td></td>
<td></td>
<td></td>
<td>Manufacturing or Production</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Sales, Marketing or Distribution</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Administrative Management or Support Services</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Provision of Services to unrelated parties</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Internal Group Finance</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Regulated Financial Services</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Insurance</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Holding shares or other equity interest or天津</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Demand</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Other</td>
</tr>
</tbody>
</table>

*Source: OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2022*
STAGES OF THE RISK ASSESSMENT*

STEP 1: DATA PREPARATION
This step entails collating necessary data from Table 1 and Table 2 of the CbCR and then preparing the collated data for carrying out the risk assessment.

Data used for Figure 1 is taken from Table 1 and Table 2 of the Annex 3 of the HETRA
• Data is used from Table 1 and Table 2 of the Annex 3 of the HETRA to generate two dataframes using Pandas

• The first Pandas dataframe has different data fields of Table 1 + the key financial ratios some of which are:
  • the unrelated-party revenue ratio (Unrelated-party revenue/Total revenue)
  • the related-party revenue ratio (Related-party revenue/Total revenue)
  • revenue generated per employee (Total revenue/Number of employees)
  • revenue generated per EUR of tangible assets (Total revenue/Tangible assets)

• The second dataframe has the fields from Table 2 related to the jurisdictions concerned, the entities’ names and the economic activities undertaken by the MNE. Further, certain additional features were added to the second dataframe:
  • the potential high or low value added by each activity;
  • their characterization based on their degree of mobility from one jurisdiction to another;
  • the profit margin per constituent entity; and
  • the effective tax rate per constituent entity.
STEP 2: PRELIMINARY ASSESSMENT OF THE MNE'S FOOTPRINT
This step aims to analyse the MNE's footprint in the jurisdiction, using the size of the MNE's revenue sourced in the jurisdiction as a preliminary filter.

The main purpose is to eliminate further risk assessment for the jurisdiction where the revenue is not material and also to look whether it is consistent with the economic activity undertaken by the MNE in the jurisdiction.
STEP 3: ANALYSIS OF THE DISTRIBUTION OF THE MNE'S KEY RATIOS
This step entails analysing the distribution of the key financial ratios (which may also be a key performance indicator) of the MNE that crosses the materiality threshold in Step 2.

The purpose is checking whether the MNE’s key financial ratios are balanced throughout the different jurisdictions or not.
Each point outside the box represents a jurisdiction whose value for the concerned ratio is so distant from the remaining jurisdictions' value that it is considered to be an outlier.
STEP 4: ANALYSIS OF THE MNE’S FEATURES
This step entails the provision of specific analytic tools that could ease the analysis of the MNE’s financial magnitudes and ratios, as well as the activities carried out by the MNE in different jurisdictions.
STEP 5: ANALYSIS OF BEPS RISK INDICATORS

- Related/Unrelated revenues
- Comparison of key financial ratios
- Entities’s profiling
- Allocation of MNE’s activities
5.1 PROPORTION BETWEEN RELATED AND UNRELATED REVENUES

A significant amount of related-party revenue increases the potential that an error in the transfer prices applied could give rise to a significant tax difference, as well as increase the potential for other BEPS risks.
5.2 COMPARISON OF RATIOS

The aim is detecting patterns or trends in the relationship between the MNE’s key ratios.
5.3 PROFILING BASED ON FINANCIALS (I)

The purpose is learning the relative position of a particular jurisdiction within the MNE regarding the financials selected.

The radar chart produces a kind of profile for the jurisdiction.
5.3 PROFILING BASED ON FINANCIALS (II)

This kind of profile can be used to compare the shape, reach and symmetry of the distribution of the financials among different jurisdictions.
5.4 ALLOCATION OF THE MNE’S ECONOMIC ACTIVITIES (I)

The allocation of the economic activities across the MNE’s jurisdictions can also be an indicator of potential BEPS risk.
5.4 ALLOCATION OF THE MNE'S ECONOMIC ACTIVITIES (II)

- Relation between the value added by the activities developed in the different jurisdictions and the level of profits subject to tax in such jurisdictions.
- Where the mobile activities are located and the level of taxes paid in these jurisdictions.
STEP 6: CONCLUSION ON BEPS RISK LEVEL
An increased potential risk could trigger a tax audit or other compliance activity.

A low level of risk could give a tax authority an indication of where economic activity has been taxed correctly, reducing the burden on lower-risk taxpayers.
UNIFIED RISK ASSESSMENT TOOL

• Considering the risk assessment steps, a unified risk assessment tool could be framed on a global level.

• The tool could be jointly developed by tax authorities from more than one jurisdiction, improving the effectiveness of a tax authorities’ risk assessment while providing greater certainty for MNEs.

• Such a tool would:
  • Improve communication patterns and similar understanding of the available data;
  • Support the authorities in high level risk assessment tasks and tax audits;
  • Allow MNEs out and in scope of the to perform a risk self-assessment in accordance with the criteria applied by tax authorities;
  • Help MNEs to mitigate any reputational risk arising from the CbCR data becoming public.

TAKEAWAYS

• Since a lot of time and resources go into the preparation of a CbCR, it must be ensured that the data provided is interpreted adequately by the stakeholders referring it.

• Data analytics techniques are very useful to facilitate and standardize the interpretation of the data provided by MNEs through the CbCR.

• Having a unified tool incorporating available data analytics and visualization tools would aid in a uniform understanding of the data provided in CbCR. It may reduce potential audits and encourage cooperative compliance.
MANY THANKS!

Any question?
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