March 1, 2016

What's BEPS All About?

INTERNATIONAL, TAX
BY MARY RICHTER

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You may have heard about the OECD and the BEPS project. Once you get past the acronyms, you might be curious about what it all means. The OECD (Organization for Economic Co-operation and Development) is a global group, currently made up of 34 countries, to promote policies that will improve the economic and social well-being of people around the world.

THE BASE EROSION AND PROFIT SHIFTING (BEPS) PROJECT

A few years ago, the OECD began a project to address perceived and real tax abuses generally referred to as base erosion and profit shifting (BEPS). Studies indicate that large multinational enterprises report lower tax rates, using complex offshore structures and transactions to shift billions of dollars of income to low-tax countries. In 2012, G20 leaders asked OECD for diagnosis and an action plan to address concerns over companies' ability to "artificially separate the allocation of their taxable profits from the jurisdiction in which these profits arise." In other words, countries were concerned that taxpayers were playing games with tax revenues. As a political response to growing perception that governments lose substantial corporate tax revenue because BEPS, governments of 44 countries have developed a set of recommendations. The participants include 34 OECD member countries, 2 OECD accession countries, and the remaining G20 countries.

The BEPS initiatives seek to harmonize transfer pricing with value creation and effectively shut down loopholes that create deductions or result in low- or no- taxed income.

COUNTRY BY COUNTRY (CBC) REPORTING

There are many parts to the BEPS project, but one is receiving a lot of attention: Country by Country (CbC) reporting. Reporting templates have been designed that provide summary data by jurisdiction-including revenue, income, taxes and indicators of economic activity, financial data & employees and activities by country. These reports are to be filed in the parent company's country of domicile. They will be available to other governments and provide a bit more transparency regarding where income is earned, what activities generate the income and how it is taxed.

CbC reporting will be first applied to large multinationals. In the U.S., the IRS has promulgated regulations to address the CbC reporting. Under the regulations, parent companies with combined group annual revenue of $850 million will be required to file the report with its U.S. tax return. Based on the finalization of the regulations, the CbC filings could be due with 2017 U.S. tax returns. Other countries will likely adopt similar timing, requiring multinational groups to begin to collect and format the data.

Contact us if you need assistance meeting the reporting rules and visit our SD Global Services page to learn more about the services we offer.

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