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Singapore releases e-Tax Guide on Country-by-Country Reporting

A flurry of sign-ups in the first half of 2016 took the number of countries agreeing to introduce the minimum BEPS standards[1], including country-by-country (CbC) reporting, beyond 80.[1] Recent sign-ups show a global spread: Egypt, Kenya, Nigeria, Pakistan, Singapore, China and Hong Kong. The newcomers include a number of offshore centres such as Jersey, Guernsey and Lichtenstein. We know there will be more to add to the list in the coming months.

Background

On 16 June 2016, the Singapore Ministry of Finance (MOF) announced it will join the inclusive framework for the global implementation of the Organisation for Economic Co-operation and Development (OECD) Base Erosion Profit Shifting (BEPS) project.

By joining this framework and becoming a BEPS associate, Singapore is committed to implementing four minimum standards[2] under the BEPS project, CbC reporting is one of those.

To align with the commitment of being a BEPS associate, the MOF included the implementation of CbC reporting in the draft Income Tax (Amendment) (No. 3) Bill, which will be introduced to parliament.

On 10 October 2016, the Inland Revenue Authority of Singapore (IRAS) released an e-Tax Guide to provide taxpayers with administrative guidance on the implementation of CbC reporting for financial year 2017 onwards.

Filing obligations

The CbC reporting requirements are applicable to a multinational enterprise (MNE) group if:

- The ultimate parent entity of the MNE group is tax resident in Singapore;
- The consolidated group revenue exceeding S$1,125 million[3] (approximate to the EURO 750 million recommended by the OECD); and
- The MNE group has a presence in at least one foreign jurisdiction.

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1 The minimum standards as set out in the 'inclusive framework for the implementation of the BEPS package' cover harmful tax practices, tax treaty abuse, CbC reporting requirements for transfer pricing and improvements in cross-border tax dispute resolution.
2 OECD media release, 30 June 2016 (http://www.oecd.org/newsroom/first-meeting-of-the-new-inclusive-framework-to-tackle-base-erosion-and-profitshifting-marks-a-new-era-in-international-tax-co-operation.htm).
3 Financial year 2016 revenue for financial year 2017 filing purposes

Format of CbC reports

The format of CbC reports is consistent with the model template recommended in the OECD BEPS' Action 13.

- Table 1: Overview of income, taxes, employees and assets of the MNE group allocated to the different tax jurisdictions that the MNE group operates in.
- Table 2: Overview of the entities (including permanent establishments) of the MNE group organised according to the tax jurisdictions that the entities are tax resident in.
- Table 3: Any additional information that the MNE group believe it would be relevant and useful to interpret or understand the data provided in the CbC report.

Submission of CbC Reports

The MNE groups that fulfil the filing obligation will be required to submit the CbC report to IRAS within twelve months from the end of a financial year.

To date, Singapore is not a signatory to the OECD's Multilateral Competent Authority for the automatic exchange of CbC report ("the CbC MCAA")[3], therefore, the submission mechanism of the CbC report will probably not be in the format of XML schema. The IRAS is currently developing an e-services to receive the CbC reports electronically with a sufficient level of encryption.

Exchange of CbC Reports

The CbC reports will not be exchanged automatically among jurisdictions as Singapore is not a signatory to the CbC MCAA. The IRAS indicates it will enter into agreement with jurisdictions that have a strong rule of law for exchange of CbC reports. This is to ensure confidentiality of the information exchanged and prevent its unauthorised use.

Penalties

In the event that MNE groups meeting CbC reporting requirements did not submit the CbC report within the filing dateline or provide incorrect information, the consequences will be a fine not exceeding S$10,000 or imprisonment for a term not exceeding two years or both under Section 105M of the Singapore Income Tax Act.

Challenge and risk:

The challenge is that a lot of the information is hard to source or evaluate. While detailed data in areas such as headcount are typically available at divisional level, as that is how most companies are managed, many companies will find it difficult to break this down to the entity level required under CbC reporting. Particular challenges centre on intangible assets, the use of which may spread over multiple entities.

CbC reporting also opens up new risks. In particular, a local tax authority could perform a high level transfer pricing assessment to compare the headcount, earnings before tax, etc. to the amount of tax a company is paying in their jurisdiction, and follow up with detailed investigation.

Conclusion

CbC reporting is a major undertaking, both in completing the templates and in providing the substantiation needed to justify how your tax payments are allocated at a macro level.

The burden of preparation and justification is likely to be a tough task and time consuming. Therefore, get started now as this is likely to put you in greater control over your tax affairs by making it easier to demonstrate that your group is allocating the right share of profit at each jurisdiction.

If you would like to discuss any of the areas raised in this article, please contact your local Grant Thornton adviser or one of the Singapore contacts listed below.

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