



TAX NEWS & VIEWS PODCAST

Public CbCR Readiness: Key Considerations for Multinationals

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Carrie Falkenhayn: From Deloitte Tax, welcome to the Tax News and Views podcast. In this series, we talk to specialists from Deloitte about the latest business issues and developments. I'm Carrie Falkenhayn, your host for Tax News and Views. And today, we're going to be talking about country-by-country reporting, including the trends related to that reporting and what organizations are thinking about as those requirements continue to evolve. Joining me today to discuss these developments are two specialists from Deloitte. We have James Gordon from our Tax Governance and Transparency Group, and Eva Parenti from our Transfer Pricing Group. Welcome, you both to the podcast. And for our audience, right, you likely know that Country-by-country reporting is an international initiative led by the OECD. Really trying to drive standardized framework requiring large multinational enterprises to report key financial and tax information. For each country in which they operate, in order to enhance transparency, as well as help tax authorities assess profit shifting and transfer pricing risks. To get us started, I think we should start broadly. Obviously, country-by-country reporting, it's not a new concept. So why is now the moment that companies need to actually pay attention to it, why is this bigger than just, like, some informational reporting? Eva, what are you seeing?

Eva Parenti: Yeah, thank you, Carrie, and absolutely, Europe and Australia have both enacted disclosure regimes. This is the first year of broad applicability of the public country by country for many U.S. companies, and so that's why we are paying special attention. What it's worth mentioning immediately, this is not a filing that quietly sits with the tax authority anymore, as it was the country by country. It's published. It's publicly available, and anyone can read it, and so that changed the profile. There are, I would say, two elements to consider that stuck on top of each other. On one side is the compliance penalty risk, but on a separate. There is the more larger reputational and strategic disclosure element in thinking our third party will be reading this information and using this information. I would say at this point, it's not just a theoretical or guessing. The first wave of the June and September filers have already gone out. And the largest calendar, deadline is going to be 12/31, but we can already see the reaction from the press and from the public, so it's not anymore just theoretical, we can see already the reaction from the public. Maybe worth mentioning that, everybody was working against the 12/31 deadline. Australia Tax Office just announced a month delay to the deadline, so now we have until January 29, 2027, just for Australia.

Carrie Falkenhayn: Yeah, and I've got to imagine the fact that these are now public filings and are creating some new issues. So, what are we seeing from these first waves of filing? James, jump in here.

James Gordon: Yeah, thanks, Carrie. We are indeed starting to see some trends from the first wave of filings, and tax transparency has also been a focus of the global media for years now, and so PCBCR just represents the latest wave of public data entering the conversation. Some non-governmental organizations are already reviewing and scoring some of the EU filings that we've seen, highlighting potential compliance questions and outlying data points. And we do expect more comprehensive summaries to emerge after the first full year of compliance concludes, in the middle of next year. The scrutiny over public CBCR is not entirely new. Tax transparency regimes affecting the extractive and financial services sectors have actually been in place in some countries for years, and their disclosures have generated media and analyst inquiries as well. Australia has an existing annual release of data on taxes paid locally, and it does already attract significant Australian local media and public attention. PCBCR there is likely to receive similar ongoing scrutiny once the data becomes available, as the ATO will be publishing companies' data together in batches, meaning that they can be easily analyzed and compared to one another as one data set. We are already seeing press coverage as well, examining individual company disclosures released under the EU regime today. Life sciences and tech companies have attracted attention so far, and organizations we fill with similar operating models or jurisdictional profile patterns may receive some focus as reporting expands, especially as we head into December for those calendar year-end companies.

Carrie Falkenhayn: So we have all this information that we need to report. So, who should actually be involved in getting the company ready, given the broad, audience that's going to be able to read it? Is it just the tax department? What are we seeing?

Eva Parenti: Carrie, that's a great question, right? For most clients, the ownership of the public country by country, they fall to the tax department, because they've done country by country from 8975 for years, so they are the natural candidate to deal with the public country by country. But absolutely, companies need to make sure that the C-suite, the legal counsel, investor relationship, corporate communication, they are at the table, and increasingly also potentially the board. They need to be well-informed. And prepare before the disclosures are finalized, so that they have a real opportunity to pressure test these strategies, and not just signing off at the end. If all these stakeholders, C-suite, legal, communication first see the numbers a week before the filing, that is kind of a failure of the process. They really need to be at the table in strategizing and coming to the deliverable. The other thing worth mentioning is that we always recommend that the clients drive this centrally, from a U.S. headquarters standpoint, and you can involve in-country as necessary, but it's much more effective when it's driven centrally, by the headquarter, so that they can have a holistic strategy globally. So that's the other things worth mentioning, like, making sure that this is a centralized process and not delegated to each of the countries.

Carrie Falkenhayn: So, you keep coming back to this idea of treating it like it's a broader assessment, not just a reporting exercise. What does that really look like in practice?

Eva Parenti: Okay, too often, public country by country is still treat it as they pull the numbers, populate the template, file it. But because the data is going public, companies now need to consider how the various third-party stakeholders would review the information, as we saw before. And this is adding a significant layer of complexity. We need to assess what could be the potential reputational or transfer pricing audit risk before everything gets published.

And not in response to a query afterwards. So, in a sense, we really need to treat it as general audit risk, similar as we've been treating there. The OECD has published a book that defines the risk assessment of a country-by-country with 19 elements. And best practice is for every company to go through that risk assessment process. And it could be outlier, where some jurisdiction may have significant profit, low ad counts. So, it's important to go through that process of risk assessment to identify what could be outlier and what could be drawing attention from the public and make sure that the company has a clear narrative behind those outliers in terms of how can be explained. And so, make sure to run all of that ahead of time, and be prepared for the disclosure.

Carrie Falkenhayn: So, if you run that risk assessment, and you find you do have an outlier, what are some options that a company could consider?

James Gordon: So, the company needs to live with what it is, but it doesn't have to live with being unprepared to explain it. And so, it does create an opportunity to assess the issue, whether a risk or an opportunity to demonstrate the company's operations. Determine who may be concerned and prepare an appropriate response. You know, this could include some potential FAQs. Especially for those structural year-over-year topics, given this will be an ongoing requirement, and some may be one-off issues. Others may be items that require discussion and explanation every year. The first step really is proactive internal communication, so the outlier itself should be identified, understood, and then discussed with the relevant stakeholders. This is particularly important because PCBCR data is not just tax data, it's actually commercial data, too. So, for example, it may highlight some crude jurisdictional margins, loss-making entities, reconciling differences, or operations in sensitive jurisdictions. Now, whether something is viewed as an outlier can also depend on the audience. You know, the media, analysts, the public, and internal stakeholders. They may all interpret the same data differently, so teams closest to those audiences are often interested and welcome in spotting any of the implications as well.

Carrie Falkenhayn: So, once you have set the numbers, what happens next? You mentioned, right, building out some internal FAQs. What else should people consider?

James Gordon: Yeah, absolutely, Carrie. Once the numbers are finalized, the next step is really to assess them from multiple perspectives, as we just touched upon, and identify those potential perception risks, those opportunities, and those questions that may be asked. Now, where the analysis highlights likely areas of interest, companies should prepare and review the responses in advance. You know, this helps inform the broader disclosure strategy and covers both internal and external communications. Some companies may issue proactive communications explaining the PCBCR. For example, we're already seeing explanations on how the data was prepared.

As well as the reasons for notable outliers. This may include a website FAQ, an explanatory summary, or a broader tax contribution report, and we have seen several US multinationals adopting that approach so far. Now, even where there are no external communications planned, companies should develop a clear internal narrative and FAQ for stakeholders who may receive questions within or from outside the organization. The objective really here is to ensure that potential issues are understood and addressed collaboratively before they are raised externally, thus avoiding any surprises for the business. The FAQ, ideally, should be centrally governed and usable across different departments and regions, which can

make sure that responses remain consistent and that no one is left improvising. A practical model we have seen is for the comms department or public relations to coordinate these responses and work closely with tax and other relevant functions as appropriate to reply. Now, as I mentioned, some companies are also publishing narrative alongside the filing, sometimes linked to existing sustainability reporting. Now, although this is still a minority approach, it does offer the opportunity to shift the PCBCR from a defensive compliance exercise to a way to demonstrate transparency and credibility to your stakeholders.

Carrie Falkenhayn: So, it sounds like there's really a lot of options for organizations to, approach the filings with. Eva, can you walk us through what the actual options are?

Eva Parenti: Yes, as James was mentioning, both regimes have a floor, but not really a ceiling in terms of what can be disclosed. And the range really runs from a strict minimum filing to a more moderate approach, where there might be some preventive, contextual narrative, explaining some of the informations that are disclosed. At times, it's just like, as James was mentioning, internal documents, or frequently asked questions, but sometimes it's proactive, where it's published on the website, or contextual to the filing. And there are situations where we see a full voluntary transparency disclosure, where the company might really provide a significant amount of detail in terms of the overall, contribution report and transparency. So, these are all options on the table that companies are considering. I would say it's also worth mentioning that there are some disclosure exemptions in the directive, but they are very limited. Having said that, some companies are also looking into those options. On the European side, there is a safeguard clause allowing deferral of certain commercially sensitive data. The exemption is only valid for up to 5 years, so it's pretty limited. And the other option is a fallback or a non-cooperation disclosure if the ultimate parent doesn't provide sufficient information. In those situations, European countries have the opportunity to just disclose the data for their own jurisdiction, and for the data that they have availability. So, there are some limitations and some, you know, potential exemption coming from those situations for Europe. On the Australian side, companies can't seek a formal exemption, though it's discretionary and require a real case in terms of you know, strategic information, say, maybe defense, but so it's somewhat limited and discretionary. It's granted by the commissioner at their own discretion, it's not automatic. So, companies should build time, if they want to go down that path, to see if it's really an alternative that is viable.

They can be, full or partial exemptions, so the ATO maybe provides some partial exemption where you're not required to disclose a subset of the information, but again. These are pretty limited opportunities that exist right now under the public-by-country.

Carrie Falkenhayn: Okay, for an organization that is just getting started, right, thinking about their public country-by-country filings, where should they start, and how do you guys typically get involved?

Eva Parenti: First of all, again, very important that, the information is shared with all the internal stakeholders, not capped within the tax department. We run the process through a centralized, coordinated hub-and-spoke model, as I was mentioning before. It's very important to develop that strategic view on a global basis so that the position is taken consistently. And that can be executed locally as needed to make sure that you're compliant everywhere you need to be compliant. The other key steps that we had mentioned before, important to go through that risk assessment process, both in terms of the type of strategic information that may become available, that wasn't available before. And also, all the other, elements that, you know, understanding how third parties are going to react to all this information being made available. And so that's really kind of key in terms of, you know, getting all the stakeholders at the table early on, and make sure we run that risk assessment, and evaluation of where could be the risk, and be prepared for it, as James was discussing before.

Carrie Falkenhayn: All right, to wrap us up, James, maybe you could just share 3 takeaways, right from this conversation, that you would like our listeners to have.

James Gordon: Yeah, absolutely. I think, as Eva touched upon at the beginning, you know, this is not a standard tax filing, it's a public document, so if not already, start socializing this right now within the organization with both tax and non-tax stakeholders. That is absolutely the number one thing to do if you haven't done it already. The disclosures, as we've mentioned, go beyond tax into commercial operations, and so broad buy-in on the way forward is absolutely critical. And also, give yourself some real runway to analyze any risk factors, any opportunities, and your strategy well ahead of final deadlines. And again, for calendar year companies, those are coming up in the next two to three months. And so getting started on this as soon as possible, really, if not already, is definitely recommended. And finally, think beyond the raw numbers. You know, plan for the narrative, understand the data drivers. And prepare for internal and external stakeholder questions with the right stakeholders involved throughout the process, so that the questions can be addressed before they're asked, and not after. Thanks Carrie.

Carrie Falkenhayn: Thank you, both of you. Like, like so many new things, getting started early is key, so, thank you both for sharing those, amazing insights, into what organizations should be thinking about. Audience, thank you, as always, for your attention. If you'd like more information, you can go to [Deloitte.com](https://www.deloitte.com) and search on Country-by-Country reporting, and you'll see, some resources that we have there. You could also reach out to James or Eva directly via LinkedIn. As always, we hope you join us next time. Until then, be well. Take care, everyone.

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