

Multilateral pact to be inked: financial, tax information to be shared with OECD states

Pakistan is to sign Multilateral Competent Authorities Agreement relating to exchange of Country-by-Country reports (CbC MCAA) aimed at sharing detailed financial and tax information of companies with OECD member countries.

Sources in Finance Ministry told *Business Recorder* that Pakistan signed Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MC) under the aegis of OECD (Organization of Economic Cooperation and Development), on September 12, 2016. Pursuant to Article 6 of the Convention two Multilateral Competent Authority Agreements were to be signed. One relates to automatic exchange of tax related information, which was signed on June 7, 2017, whereas the other, the Multilateral Competent Authorities Agreement relating to exchange of Country-by-Country reports ("CbC MCAA"), is expected to be signed on the margins of upcoming meeting of BEPS Inclusive Framework in Netherlands on 21-22 June, 2017.

As the cornerstone of the OECD's Base Erosion and Profit Shifting (BEPS) project, country-by-country reporting (CbCR) requires multinational enterprises to report detailed financial and tax information relating to the global allocation of their income and taxes, among other indicators of economic activity. The purpose of the CbC MCAA is to set forth rules and procedures necessary for the Competent Authorities of jurisdictions opting to automatically exchange CbC Reports filed by the MNE (Multinational Enterprises) Group in the jurisdiction of its tax residence, with the tax authorities of all jurisdictions in which the MNE Group operates.

Once Pakistan becomes signatory to the multilateral competent authorities agreement on CbCR, the information would be submitted to Pakistan in respect of all the subsidiaries and parent company, wherever located, of every multinational operating in Pakistan, indicating in which jurisdiction the profits have been shifted/parked.

In practical terms, CbCR, aims at laying the foundation of a modern international tax framework under which adequate taxes are paid in the jurisdiction where profits are generated and economic activities take place and where value is added/created.

Simultaneously, the businesses, particularly multinationals, are encouraged with greater certainty through standardizing the compliance requirements and are discouraged to shift or park income in no or low tax jurisdictions. The ultimate goal, of course, is to promote transparency, accuracy in reporting and due taxes to be paid in each jurisdiction. The CbC reports would be used for assessing high-level transfer pricing and base erosion and profit shifting related risks. It will help relocate profit to the jurisdiction of material economic activity.

According to Revenue Division, it is of major significance for developing countries like Pakistan, due to their heavy reliance on corporate income tax, particularly from multinational enterprises. Therefore, countries like Pakistan have more to gain from exchange of CbC reports as quite a number of multinationals are assessed here. All the pre-requisites for signing the

agreement have been fulfilled/completed.

Pakistan has put in place the required legal framework by making amendments in primary legislation through Finance Act 2016 and Finance Bill, 2017, by amending section 107, 108 and 182. Secondary legislation on Country-by-Country (CbC) reporting has also been drafted and is being included as Chapter VIA of Income Tax Rules, 2002.

The OECD has invited Pakistan to join and sign the Multilateral Competent Authority Agreement on Exchange of Country-by-Country Reports on the margins of upcoming meeting of Inclusive Framework in Netherlands on 21-22 June. Pakistan also joined the new Inclusive Framework on BEPS Action reports on June 13, 2016, when the invitation in this regard was accepted by Minister for Finance. The Agreement has also been vetted by the Law Division. No negotiations are required for Multilateral Competent Authorities Agreement.

Finance Ministry has sought approval of the summary from Cabinet members through circulation.

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