

Transfer Pricing Update

**Treatment of Dividends for the
consistent implementation of
CBCR reporting**



OECD- Updated guidance on treatment of **Dividends received for consistent** **implementation of CBCR**

A CbC report provides local tax authorities visibility to revenue, income, tax paid and accrued, employment, capital, retained earnings, tangible assets and activities. The essence of CBC report lies in the fact that consistent approach should be followed by jurisdictions and MNEs since lack of consistency presents a challenge to tax administrations in using CbC reporting information for the high-level assessment of transfer pricing and other BEPS-related risks.

To overcome this challenge the Organisation for Economic Cooperation and Development (OECD) has issued an updated version of “Guidance on the Implementation of Country-by-Country Reporting:

BEPS Action 13”, a report to assist tax administrations and multinational enterprise (MNE) groups on the implementation and operation of country-by-country (CbC) reporting under base erosion and profit shifting (BEPS) Action.

The guidance clarifies that, as consistent with Revenue disclosure, Profit (Loss) before Income Tax also excludes payments received from other Constituent Entities that are treated as Dividends in the payer’s tax jurisdiction.

The guidance also clarifies that the term "payments treated as dividends" refers to how they're categorized in the payer's tax jurisdiction in the data used for CbC reporting.

In CBC report the payments between Constituent Entities should be consistently treated across tax jurisdictions. If the payer's source data treats a

payment as a dividend, it's excluded from Revenue and Profit (Loss) before Income Tax in the recipient's tax jurisdiction or vice versa for the purpose of reporting.

Additionally, it is clarified that if a constituent entity's profit is included in Profit Before Tax for financial reporting purposes, the Dividend amount should be treated the same way and thus excluded from Revenue and Profit Before Tax.

Income tax on these dividends should be reflected in columns "Income Tax Paid (on cash basis)" and/or "Income Tax Accrued (current year), only if included in Profit (Loss) before Income Tax. The guidance applies from January 1, 2025, promoting standardized reporting practices.

For details, please refer to the following:

OECD- Guidance on Implementation of CBCR- May 2024

<https://www.oecd.org/ctp/guidance-on-the-implementation-of-country-by-country-reporting-beps-action-13.pdf>

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