

Financial reporting and information exchange

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FACTI ISSUES NOTE

The FACTI Panel published its [interim report](#) on 24 September 2020.

The FACTI Panel will hold a series of high-level virtual regional consultations with global stakeholders from 9 to 23 November 2020. The consultations aim to discuss possible means to address the shortcomings identified in the interim report. To orient the consultations a series of short issues papers are being presented along with guiding questions for the consultations.

INTRODUCTION

Revenue losses to corporate profit shifting and hidden offshore wealth disproportionately affect lower income countries, systemically skewing the global distribution of realised tax revenue. The leading estimates for the tax losses to both corporate and individual tax abuse, on the order of hundreds of billions of dollars a year, show that these account for a higher share of GDP and therefore a much higher share of current tax revenues in lower-income countries.

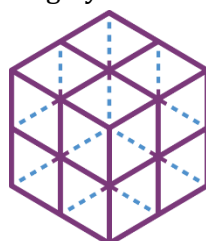
Sharing tax information is crucial. It empowers tax administrations to collect revenues from cross-border transactions and activities, narrowing the tax gap created by international evasion and avoidance. Tax transparency and exchange of information between Governments provides tax authorities with access to banking, ownership, accounting and other types of information necessary for tackling cross-border tax evasion and avoidance.

The information exchange can occur among different national authorities or between authorities of different countries. In each case there will be pre-requisites for the

sharing of information. States commonly use three methods of tax information exchange:

exchange of information on request (EOIR), which takes place when a tax authority makes a specific request for information to another tax authority in a foreign country; automatic exchange of information (AEOI), carried out among the tax authorities of two or more countries on an ongoing basis in accordance with predetermined categories; and spontaneous exchange of information that occurs when a tax authority considers tax information in its jurisdiction to be of interest to another tax authority in a foreign country and sends it without prior solicitation.

The automatic exchange of information on financial accounts provides for the exchange of non-resident account information concerning various categories of income including dividends and interest, and wealth. In 2014, the OECD's Common Reporting Standard (CRS) contributed to the legal framework for automatic exchange of financial account information. While the CRS's multilateral framework promises to be highly beneficial for developing countries, its



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effectiveness is weakened by a few deficiencies. The information sharing mechanisms face several challenges, including insufficient data control; restrictions on data usage; and lack of compliance by some developed countries.

The G20/OECD BEPS Action Plan aims to provide tax authorities with modalities to address tax avoidance. Currently, multinational companies' profits are allocated to different jurisdictions using the arm's length standard. To allow better enforcement of this standard, the BEPS Action Plan includes a requirement for country-by-country reporting (CBCR) by multinational companies. The OECD has developed guidance on CBCR production, filing and sharing among tax authorities.

However, these processes face several challenges, including restrictions on the use of data and lack of complete coverage, impediments to local filing of CBCR information, and a high revenue threshold

as the process only includes MNEs with annual consolidated group revenues of at least € 750 million.

LOOKING FORWARD

The Panel will examine potential improvements to existing frameworks for reporting information related to financial integrity concerns, including exchange of financial account information and country-by-country reporting by multinational companies. The aim is to ensure accountability to the public and benefit to those countries currently unable to access or use this information effectively.

Guiding question for the consultations:

- **How can information exchange provisions be better tailored to developing country contexts, circumstances and needs?**
- **How can all actors be held accountable for production, sharing and use of tax information?**

Further details on the high-level regional consultations can be found on the FACTI Panel website: <http://www.factipanel.org/events>.

