

The IRD publishes new rules for CbCR and CbCR notification

Today, the Inland Revenue Department (IRD) issued new guidance regarding the Country-by-Country Reporting (CbCR) and CbCR notification requirements, introducing significant changes in the compliance obligations for affected taxpayers. The new guidance includes, among others, an extension for the filing of the CbCR notification; and a significant change relating to the threshold for CbCR purposes, which is in line with the threshold recommended by the Organisation for Economic Co-operation and Development (OECD).

This material was prepared to present time-sensitive information affecting our clients. Hence, it has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice.

This Alert summarizes the key provisions of the new guidance.

1. Extension of CbCR notification filing deadline

The CbCR notification filing deadline has been extended from 31 December 2020 to 31 January 2021 for companies with fiscal years falling between 1 April 2020 to 31 December 2020.

For example, a multinational (MNE) group of which the fiscal year commences from 1 April 2020, is required to file the CbCR notification on or before 31 December 2020. Similarly, if the fiscal year commences from 1 January 2020, such MNE group is required to file its CbCR notification on or before 31 December 2021.

2. Single CbCR notification

The current transfer pricing regulations require all resident ultimate parent entity (UPE), surrogate parent entity or constituent entities to file individual and separate CbCR notifications. However, the new guide has allowed the UPE or its surrogate parent entity to file a single CbCR notification providing a list of all constituent entities in Sri Lanka. This new guidance would result in a degree of administrative simplicity for both the IRD and taxpayers.

OECD guidance. For the purpose of the CbCR, the current threshold of Rs. 115 billion (approximately EURO 500 million) is significantly lower than the threshold recommended by the OECD. We welcome this change as it will provide a relief to many MNE groups, particularly to MNE groups whose UPE is not in Sri Lanka, and revenue is between Rs. 115 billion and Euro 750 million.

In addition, the guidance issued by the IRD includes a new template for CbCR notification and an addendum in the event that the UPE or its surrogate parent entity opts to file a single CbCR notification for all constituent entities in Sri Lanka.

3. Extension of the CbCR effective date

The guidance postpones the effective date for the CbCR from 1 April 2019 to 1 April 2020. This means that the CbCR will apply to reporting fiscal years of MNE groups commencing on or after 1 April 2020.

The above changes have been announced, pending formal amendments being made to the Transfer Pricing Regulations by the Minister of Finance.

4. Increase in the revenue threshold for CbCR

The revenue threshold for CbCR has been increased from Rs. 115 billion to EURO 750 million to be in line with the

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