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Public CbCR: Shaping the Organization's Workforce Story

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For HR and Global Mobility specialists, navigating the complexities of public CbCR requires an understanding of the nuances of employee data reporting and the ability to communicate this information effectively to stakeholders, say KPMG practitioners.

Country-by-country reporting emerged as a response to the growing public demand for more transparency and fairness in the international tax system. To address those concerns, the Organization for Economic Co-operation and Development (OECD), in collaboration with the G20 and other stakeholders, launched the Base Erosion and Profit Shifting (BEPS) project, with the goal of reforming the international tax rules and to curb the practices that allow multinational enterprises (MNEs) to shift their profits to low-tax or no-tax jurisdictions. The BEPS project introduced a new reporting standard to enhance transparency for large MNEs, generally defined as companies with EUR 750 million / USD 850 million or more in annual consolidated group revenue, that requires them to file a country-by-country report (CbCR) with the tax authorities of their home country, which is then exchanged with the tax authorities of the countries where they have subsidiaries or branches. The CbCR provides a breakdown of key financial information by jurisdiction and is used by tax authorities to assess transfer pricing risks and allocate tax audit resources effectively. The first CbCRs were exchanged in 2018, and to-date, according to the [OECD webpage](#), more than 110 jurisdictions have introduced a CbCR filing obligation.

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A perceived limitation of the OECD's CbCR is that it does not require MNEs to publicly disclose their reports, with the result that the public, civil society, media, and other stakeholders cannot access the information and use it for accountability and advocacy purposes. This has led to some countries and regions taking steps to introduce or propose public CbCR as a transparency measure that builds on the BEPS project foundation. Public CbCR would generally require MNEs to publish their CbCR information, including profits, taxes, employee numbers, assets, and other relevant information for each country where they operate on their websites, in their annual reports or on a public register. The goal of public CbCR is to enable governments, media, and the public to monitor the economic activities and tax contributions of MNEs, and to hold them accountable for their social and environmental impacts. It's also intended to help safeguard the interests of investors, creditors, and other third parties who rely on this information to make informed decisions about their investments, lending, and business relationships.

The European Union (EU) has adopted public CbCR for banks and financial institutions since 2015, and for extractive and logging industries since 2016. In 2021, the EU adopted a Directive to extend public CbCR to all large MNEs operating in the EU, regardless of their sector or origin, with application no later than the first financial year commencing on or after June 22, 2024. The Australian government in February 2024 released revised exposure draft legislation implementing public CbCR for reporting periods beginning on or after July 1, 2024. Other countries, such as Norway, the United Kingdom, and Canada, have also introduced or considered public CbCR for some sectors or types of MNEs.

One of the items taxpayers are required to include on a CbCR is the number of full-time equivalent (FTE) employees in each jurisdiction. Tax authorities and other users of the CbCR use this data point to assess the scale of an MNE's operations and its economic substance in a particular location. There is no standard definition of "FTE," however, meaning the definition or interpretation of which employees qualify as full-time may differ across jurisdictions and organizations. Similarly, there are questions as to how contractors should be treated, as well as the determination of which jurisdiction to report an employee, where for instance, a remote work, cost-sharing or secondment arrangement exists. When it comes to sharing employee data and creating a narrative that accurately reflects an organization's workforce strategy, diversity, equity and inclusion (DEI) vision, culture and values, while providing information to support the organization's economic presence in a particular jurisdiction, transparent communication, context, accuracy, and strategic storytelling are essential to conveying your organization's story to the public.

Context

Companies should be aware of the many variables that can result in misinterpretation of the data reported and that stakeholders might not consider the proper context in which the data is presented. If an MNE operates in diverse industries or regions, the number of employees can vary significantly. The reported figure may include both full-time and part-time employees and

may be aggregated across multiple countries. Some MNEs engage contractors, consultants, or temporary workers as a key component of their workforce strategy. Workforce size may fluctuate seasonally due to temporary hires or project-based work. Demographics vary across cultures and what is acceptable in one context may not be in another. Stakeholders often compare MNEs' reported data, and reporting the total without context could lead to incorrect conclusions and skewed perceptions of workforce size and demographics.

Accuracy

While it's unclear who may utilize this information, companies should be concerned about the accuracy of the data they are reporting as there may be negative consequences beyond simply income tax penalties. For instance, if an MNE understates or overstates its workforce in a specific jurisdiction, it may lead to payroll tax, social security tax, and other employment-related tax audits. Likewise, immigration departments may indirectly benefit from CbCR data. If an MNE reports significant revenues and operations in a specific country, immigration authorities might consider this information when evaluating compliance with work visa requirements for foreign employees of that MNE. Public CbCR data may indirectly impact labor markets by revealing the scale of an MNE's workforce, its employment practices, and the distribution of employees across jurisdictions. Labor law departments can use this information to monitor compliance with labor standards and address any potential issues related to employee rights. Finally, failure to comply with public CbCR requirements can result in fines and administrative penalties. Sanctions for incomplete, incorrect, or late reporting can be substantial and should not be underestimated.

Transparency

Public CbCR disclosure of operational and financial information, including employee-related data, invites heightened scrutiny from stakeholders, including investors, competitors, and the public. MNEs face the risk of reputational damage if the reported employee numbers are misinterpreted or if workforce practices are perceived negatively. Transparency builds trust with stakeholders, including investors, employees, and the public. Transparency also assists informed decision-making and assessment of an MNE's performance and risk exposure. Providing additional information (e.g., employee demographics, workforce distribution, or growth trends) can mitigate misinterpretation. On the other hand, revealing workforce size and demographics may expose strategic information. Competitors can exploit this data and the company will need to balance transparency with strategic discretion. It is also important to be transparent about the limitations of reported data and acknowledge uncertainties and areas where interpretations may vary.

Strategic Storytelling

Strategic communication about workforce size, demographics, and practices helps shape an MNE's reputation. Positive narratives enhance brand image whereas incorrect assumptions can harm an MNE's reputation. Companies can leverage public CbCR to share information about employee demographics (e.g., age groups, gender, roles) and highlight DEI efforts. This process

is also an opportunity to consult with investors, analysts, employees and other stakeholders to understand their expectations, address their concerns and educate them on the nuances of CbCR. Companies can benefit from public CbCR data to conduct peer benchmarking and internal reviews to assess whether there is a need to adjust their workforce strategies or global mobility programs based on public disclosures for example, by reconsidering hiring practices, employee benefits, or location choices.

Key Takeaways

While public CbCR is not yet a global norm, and there’s still a lack of harmonization and consistency among the different public CbCR initiatives and requirements, its impact will continue to reverberate across the corporate landscape. As more countries and regions adopt or consider implementing public CbCR, MNEs will need to grapple with the challenge of navigating diverse reporting frameworks, varying thresholds, and divergent disclosure practices. The absence of uniformity poses both opportunities and risks. The way data is presented matters. Accurate, transparent, and strategic reporting of employee data not only supports economic presence but also shapes stakeholder perceptions of your organization.

Key considerations for presenting employee data in CbCR to effectively convey the organization’s workforce strategy.

| Context | Accuracy | Transparency | Storytelling |
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| <ul style="list-style-type: none"> • Provide Context: Explain the scope of employee data (e.g., full-time, part-time, contractors) and the significance of workforce size. • Link to DEI Vision: Relate employee numbers to diversity, equity, and inclusion (DEI) goals. Highlight efforts to create an inclusive workforce. | <ul style="list-style-type: none"> • Data Integrity: Ensure accurate reporting of employee counts. Errors can mislead stakeholders. • Consistent Definitions: Define “employee” consistently across jurisdictions and subsidiaries. | <ul style="list-style-type: none"> • Clear Communication: Transparently share workforce data. Explain variations due to seasonal hires, acquisitions, or divestitures. • Privacy Considerations: Balance transparency with employee privacy rights. | <ul style="list-style-type: none"> • Strategic Narrative: Use employee numbers as part of a broader narrative. Describe workforce strategies, growth, and community impact. • DEI Alignment: Showcase how workforce composition reflects organizational culture, values, and commitment to DEI. |

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