DAC6 and MDR compliance and why it's important

What is DAC6 and what are MDRs?

MDR (Mandatory Disclosure Regime) is one of the transparency initiatives of the BEPS Action Items, i.e. BEPS Action 12. The EU implementation of MDR also known as DAC6 (Directive 2018/822) imposes mandatory reporting of cross-border arrangements. It affects at least one EU Member State that falls within one of several categories or "hallmarks".

Who should care about DAC6 and MDR?

DAC6 impacts Multinational Enterprises (MNEs) operating in at least one of these 29 countries: EU27, UK, and Gibraltar. In addition, Mexico and Argentina have implemented MDR rules effective from 2021 but retroactive to prior years. Other jurisdictions are likely to follow.

When do you need to start the compliance process?

- **Already in effect** — Austria, Finland, Germany
- **January-February 2021** — All other EU countries, UK, Gibraltar, Argentina, Mexico

Is non-compliance an option?

There are significant penalties for non-compliance, so it pays to be prepared. For example, Poland imposes a fine of 5M€ for non-compliance.

Can compliance be completely outsourced?

DAC6 and MDR rules require continuous company-specific data gathering and reporting, and requires the active participation of multiple company personnel, not just the tax department.

If any of these tasks are to be outsourced it will have to be limited to deciding whether you have a reportable arrangement and completing and filing the form (tasks that can be just as easily automated by a well-designed software solution) but the continuous data gathering is something that cannot be outsourced to any firm.

Can you use Microsoft® Office tools to comply?

Some may try to use Excel to comply, but DAC6 and MDR compliance is complicated:

- Complexity of the reporting process — need to report arrangements within 30 days and resulting transactions annually
- Extensive country coverage
- Frequency of reporting
- Needing to create new tax department workflows
- Reports must be submitted to tax authorities in electronic format, following very specific schemas, and must pass validation rules

What should a good solution look like?

Well-defined workflow to take you from data collection to filing with automation built into every step

Database of country tax rules which are automatically applied to arrangement facts to identify Reportable Cross-Border Arrangement (RCBA)

Analytics to quickly identify status of RCBA including ability to filter by due dates and filings by reporting country

Comparison table showing variations in how countries implement the rules

Automated logic to identify which entities and which countries in an MNEs' footprint can trigger hallmarks

Are you ready for DAC6 and MDR compliance?

Save time and avoid substantial penalties with the Thomson Reuters **DAC6 and MDR Reporter** powered by **Orbitax**.

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