

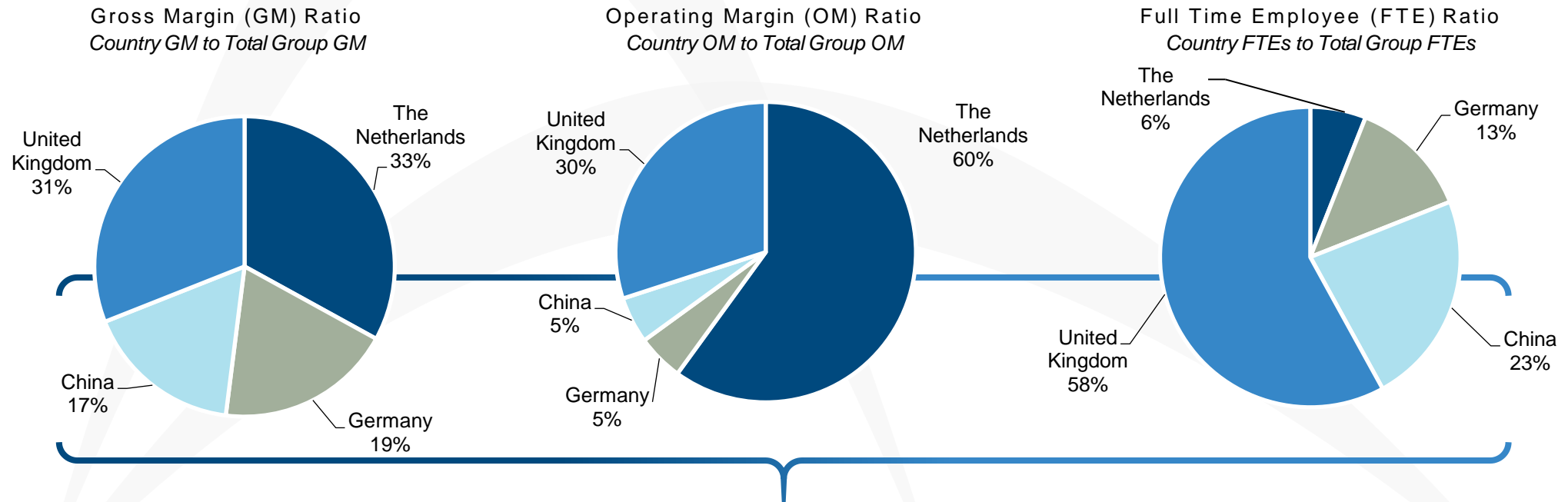
Value chain analysis - the next generation of transfer pricing

Value chain analysis drives your worldwide tax position

Speaker:
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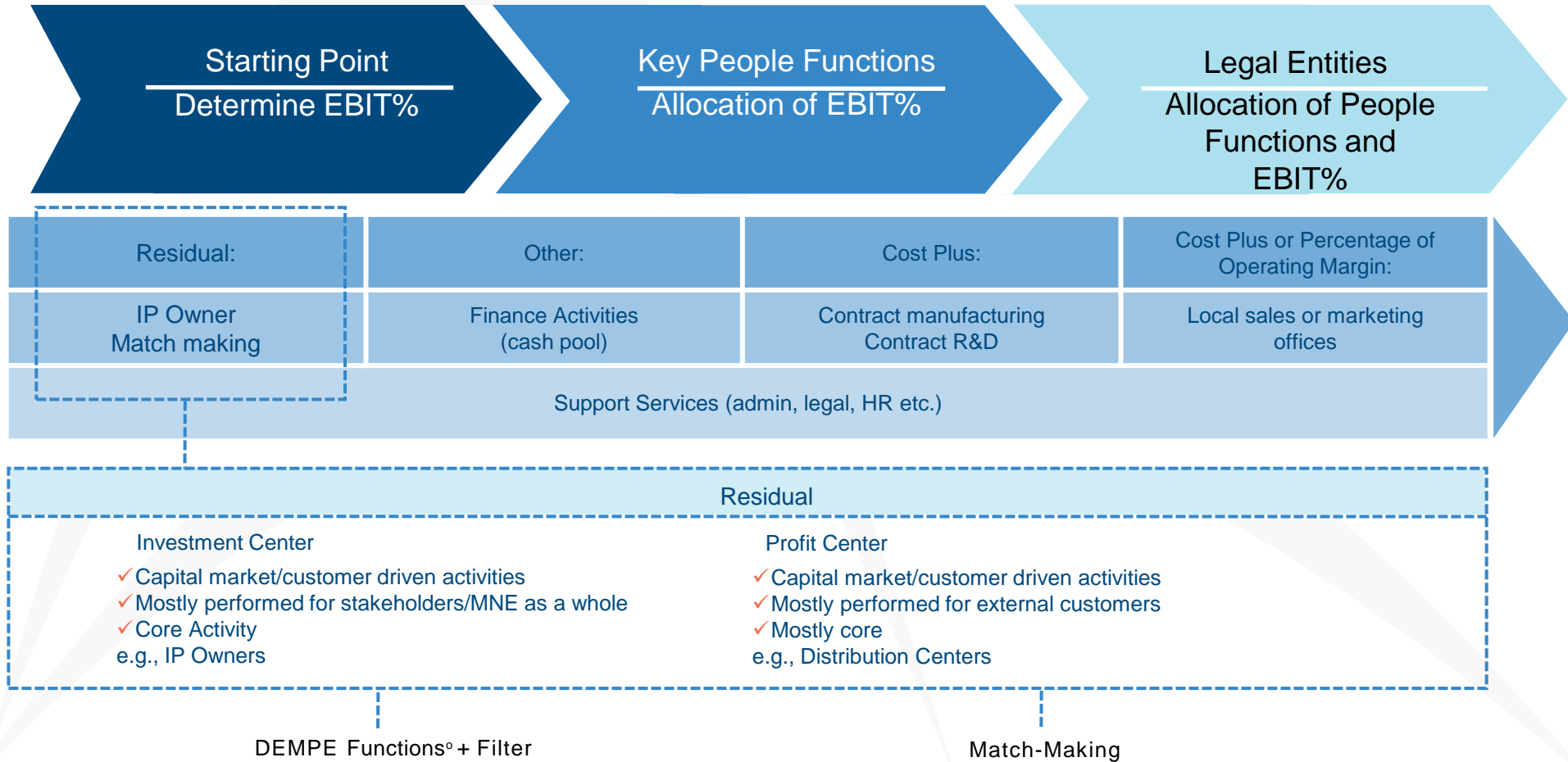
How to analyze and align the operating model

Alignment Between Gross Margin, Operating Margin, and FTEs Illustrative



Misalignment is visible when expressed as the ratio of country and total group for gross margin, operating margin, and FTEs. The higher the delta, the greater the need to provide explanations to the Tax authorities.

Basic Approach to divide the residual profit



Source: TPA Global. - ^oDevelopment Enhancement Maintenance Protection Exploitation Functions.

Balanced Scorecard Approach

Exemplary Balanced Score Card Determination of contribution to value add			2013 - 2016			2017		Weight (characterization)	Score 2010 - 2016			Score 2017	
			UK	DE	CH	UK	CH		UK	DE	CH	UK	CH
Functions	Sub-Function	Characterization											
Function 1	Sub-Function 1	Routine	X			X		1	1	0	0	1	0
Function 1	Sub-Function 2	Non-routine		X			X	2	0	2	0	0	2
Function 1	Sub-Function 3	Non-routine			X		X	3	0	0	3	0	3
Function 2	Sub-Function 1	Routine	X			X		1	1	0	0	1	0
Risks													
Risk 1	–	Non-routine	X			X		2	2	0	0	2	0
Risk 2	–	Routine	X			X		1	1	0	0	1	0
Scoring (absolute)									5	2	3	5	5
Scoring as split ratio to be applied to the residual gross margin									50%	20%	30%	50%	50%



Determined based on interviews
Fact review



Determined based on the literature and
discussions with the company

Canvas Approach BMO Strategy

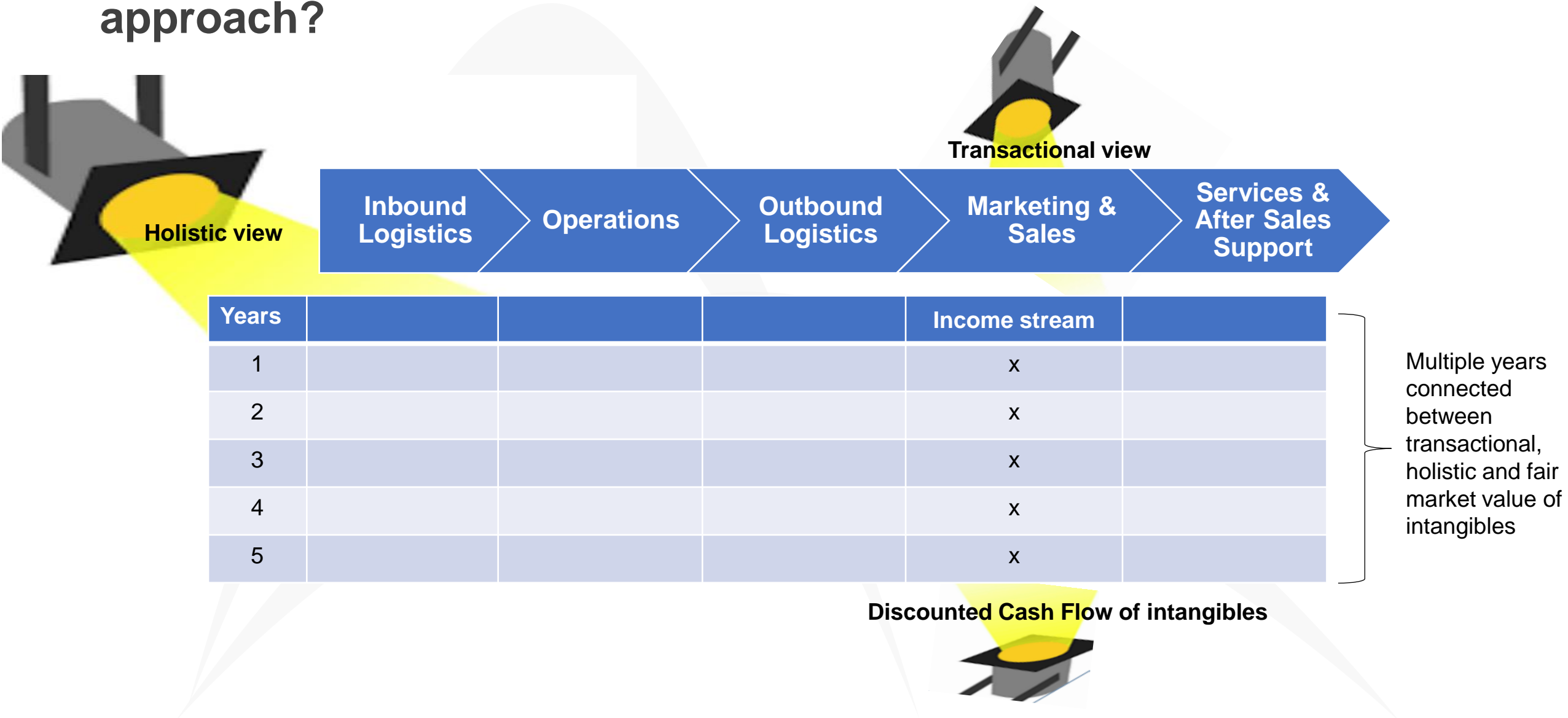
The Business Model Canvas



How to perform a VCA? - The Nespresso canvas



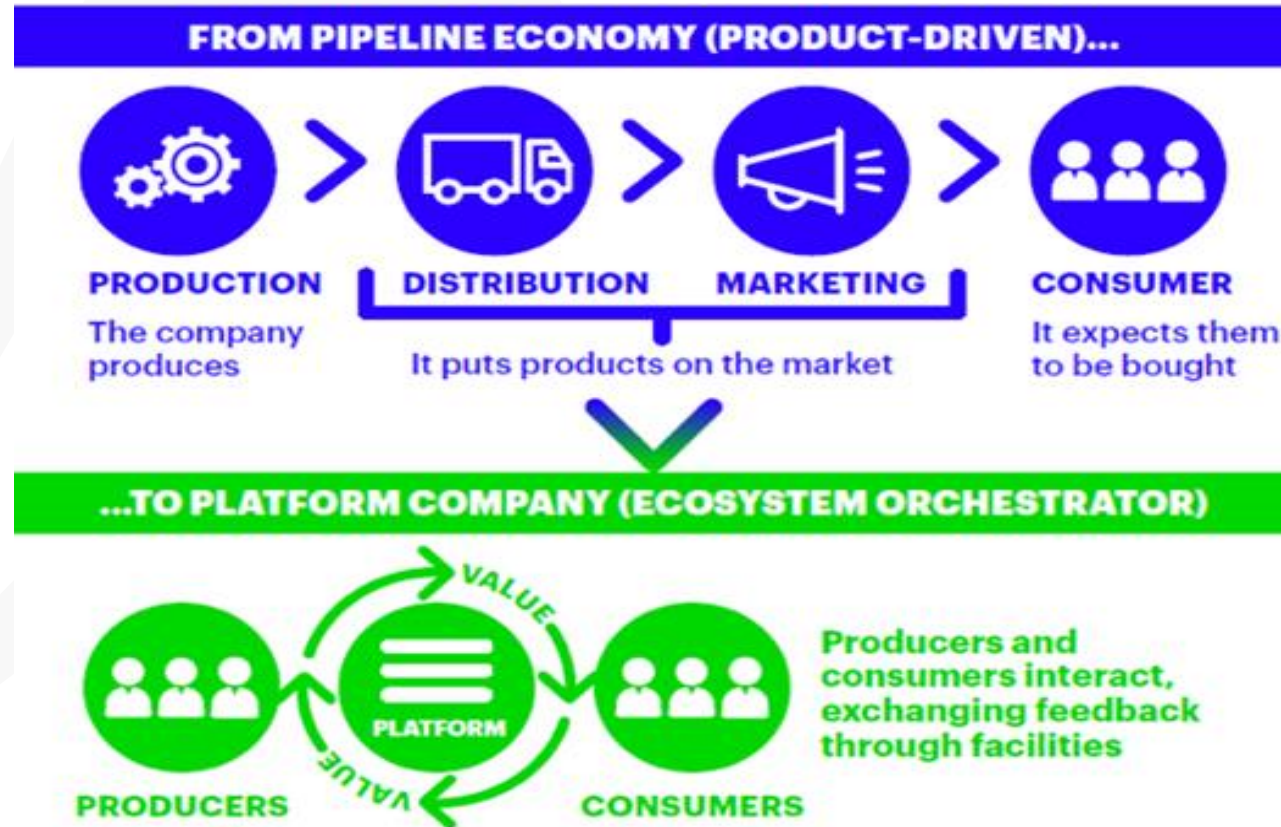
How does the VCA connect to a more transactional transfer pricing approach?



How digital transformation impact the level and place where profits are generated in the value chain? - The Tesla Motors canvas



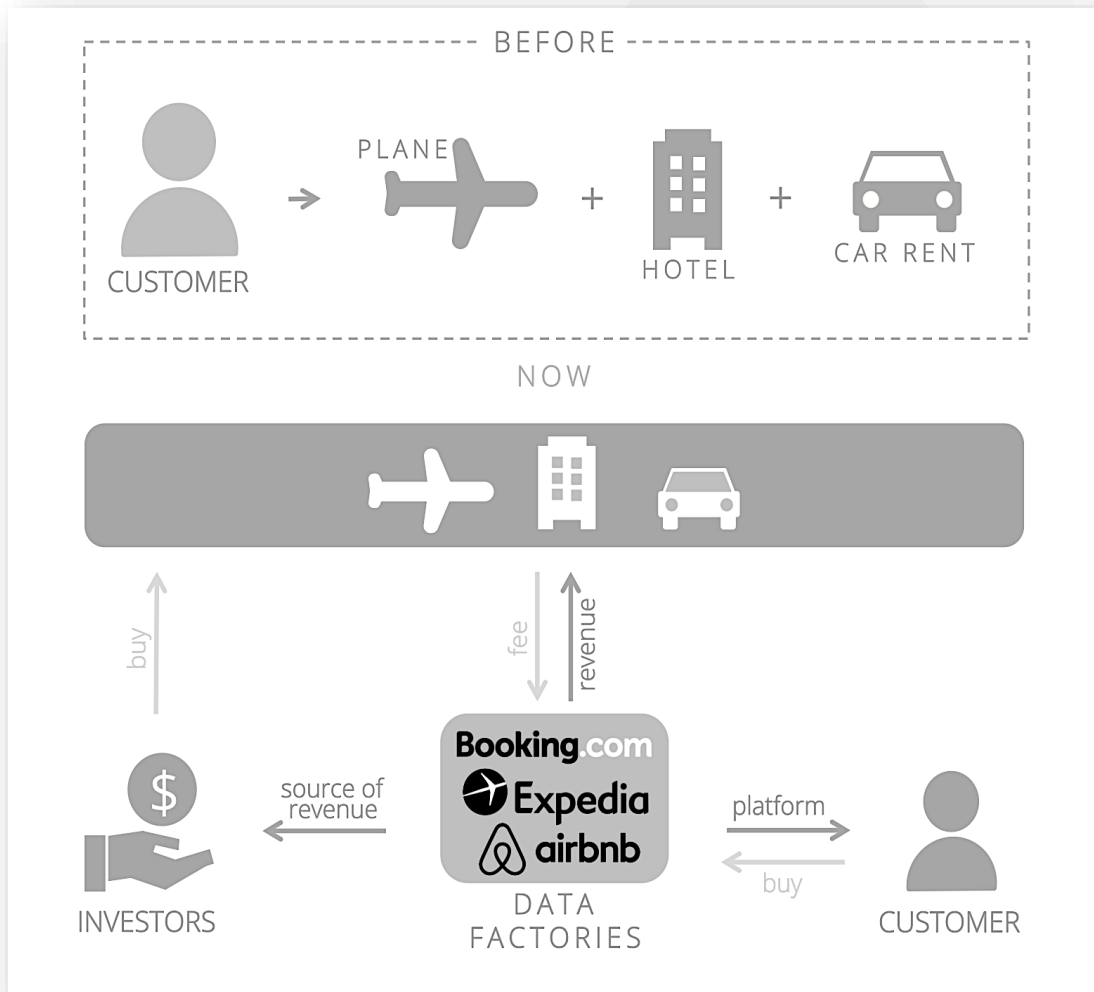
How do the tech giants structure their value chain? - How local participants drive premium platform profits





Q&A

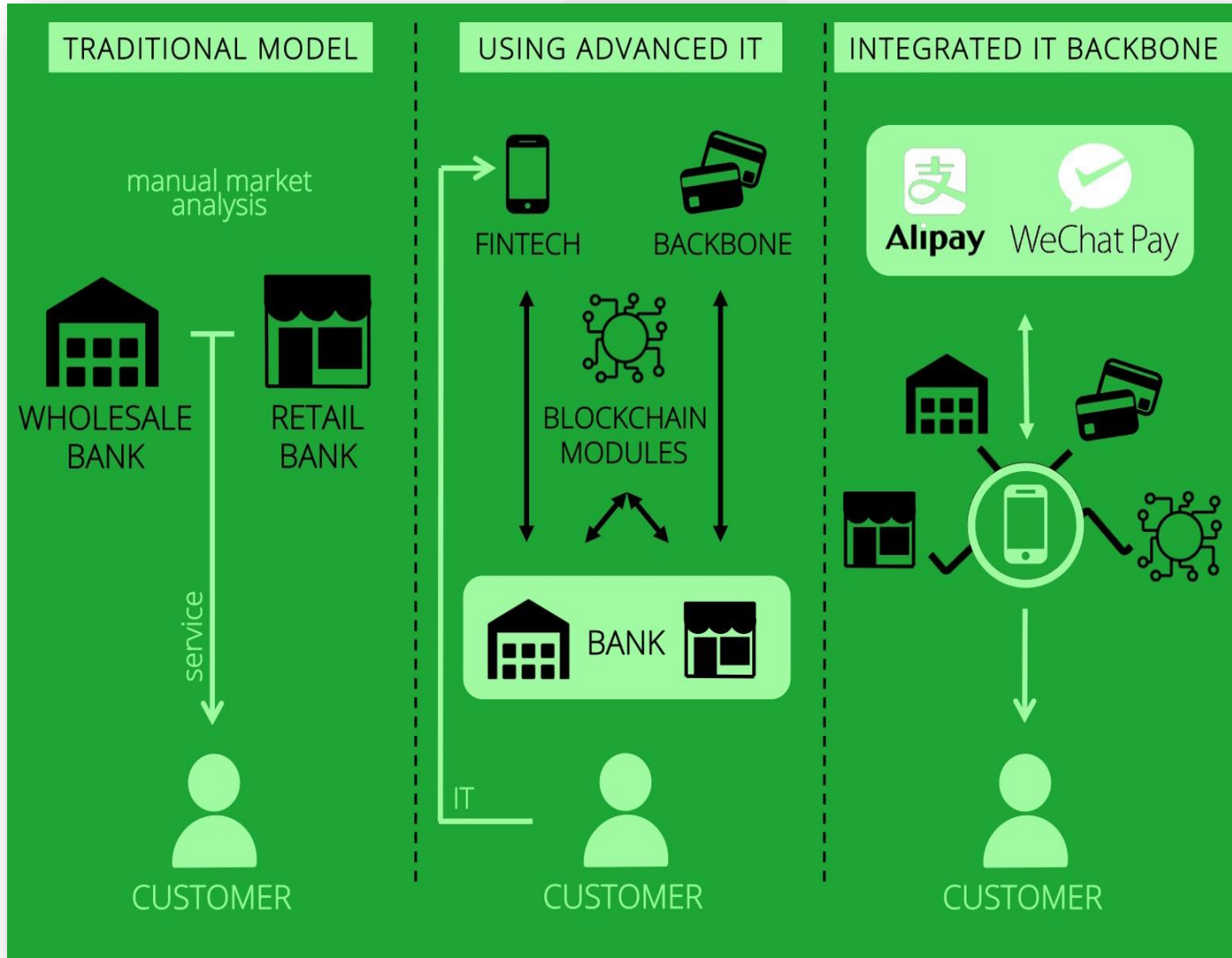
Highly platformized market: Hospitality



What is the Covid-19 impact on the platforms?

- a. Significant negative impact**
- b. Significant positive impact**
- c. No impact**

Semi-platformized market: Banking/Fintech



Which of the three models will dominate in the future?

- a. Traditional model
- b. Using advanced IT
- c. Integrated IT backbone
- d. All of the above

Soon to be platformized market: Healthcare



DIAGNOSTIC MODEL



TRADITIONAL MEDICAL
DATA FACTORIES

Generic
treatment
and diagnosis



PATIENT

PREVENTIVE MODEL



APPLE
DATA FACTORIES

Specific
treatment
and diagnosis



POTENTIAL
PATIENT

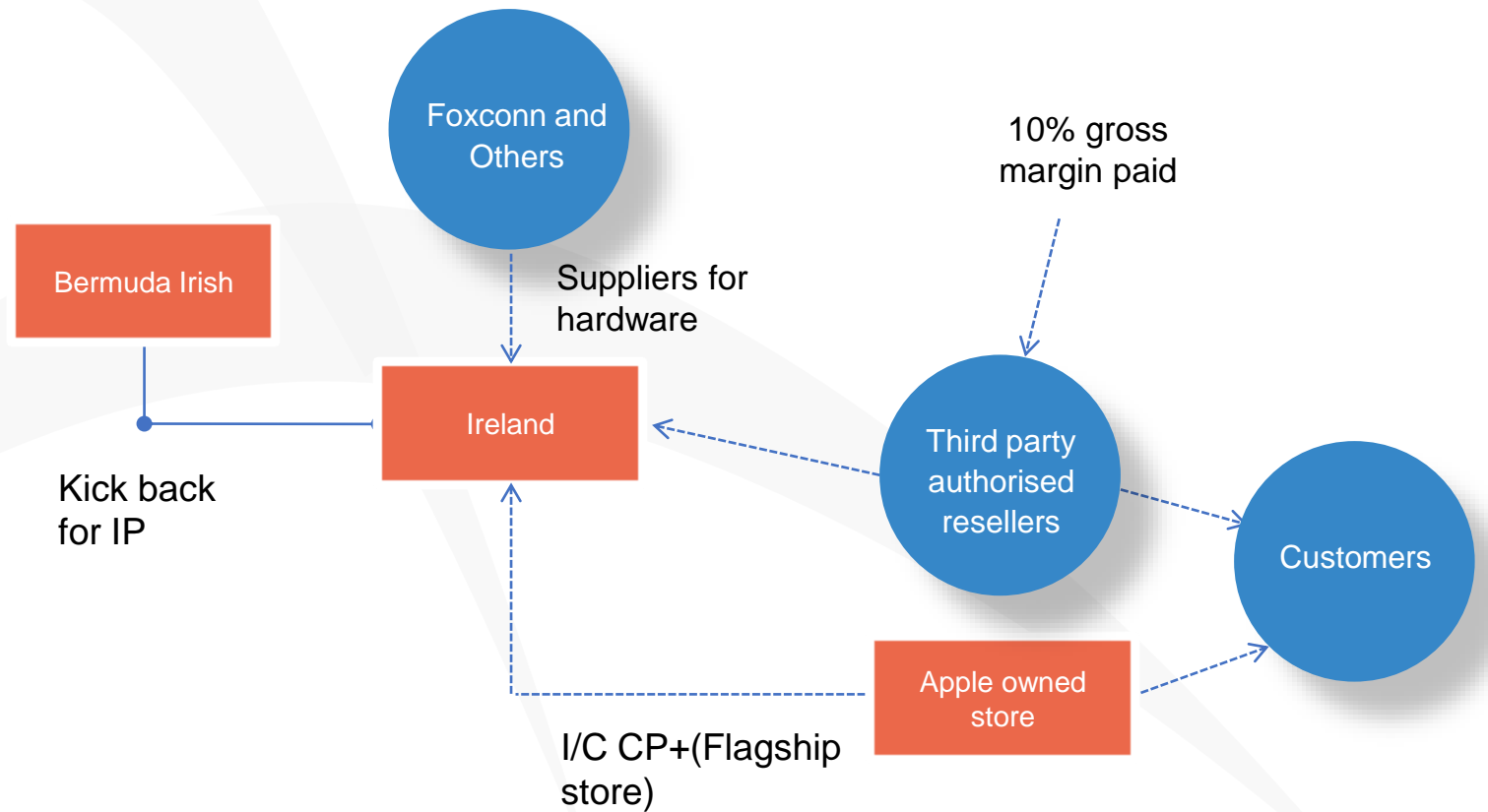
What if Apple starts managing Electronic Patient Files for 500+ hospitals? What would be your go to place as a patient?

- a. Hospital**
- b. General practitioner**
- c. Pocket doctor**

Apple Inc: Define the 3 value drivers

The five forces as identified by the Porter's model are listed below:

- Bargaining power of suppliers
- Threat of substitute products or suppliers
- Rivalry among existing competitors
- Threat of new entrants
- Bargaining power of buyers



How BEPS explains the profit allocation on the 'return on investment' metrics?

- The metrics on a successful business are **still measured on the return on investment (ROI)**
- The Base erosion and profit shifting (BEPS) relevant criteria is used to allocate corporate profits to countries
- It takes into account the functions, assets and risks being handled by one MNE group entity and the presence of significant people on its payroll to allocate portions of the gross margin out of the total profit a MNE is making.
- **Pillar 1** mainly focuses on the allocation of taxing rights and seeks to undertake a coherent and concurrent review of the profit allocation and nexus rules. However, it aims to cover not only highly digital business models but also consumer-facing businesses.

Amount A: a share of deemed residual profit shall be allocated to market jurisdictions using a formulaic approach (i.e. it shall create a new taxing right).

Amount B: it envisages creating a fixed percentage return that would be allocated to 'routine' functions like amongst others marketing and distribution. There will largely retain current transfer pricing rules based on arms' length principle and does not aim to create new taxing rights.

Amount C: binding and effective dispute prevention and resolution mechanisms relating to all elements of the proposal, including any additional amount beyond Amount B that should be taxed in the market jurisdiction.

How beyond BEPS (i.e. pillar I) the profit allocation follows the 'return on data' metrics?

The new metrics on being successful in the platform economy run on:

- (i) the growth of the number of participants on the platform
- (ii) the growth of the revenue achieved by the platform owner per participant and
- (iii) on the presence of multiple business models, which would extend your shell life as a platform owner.

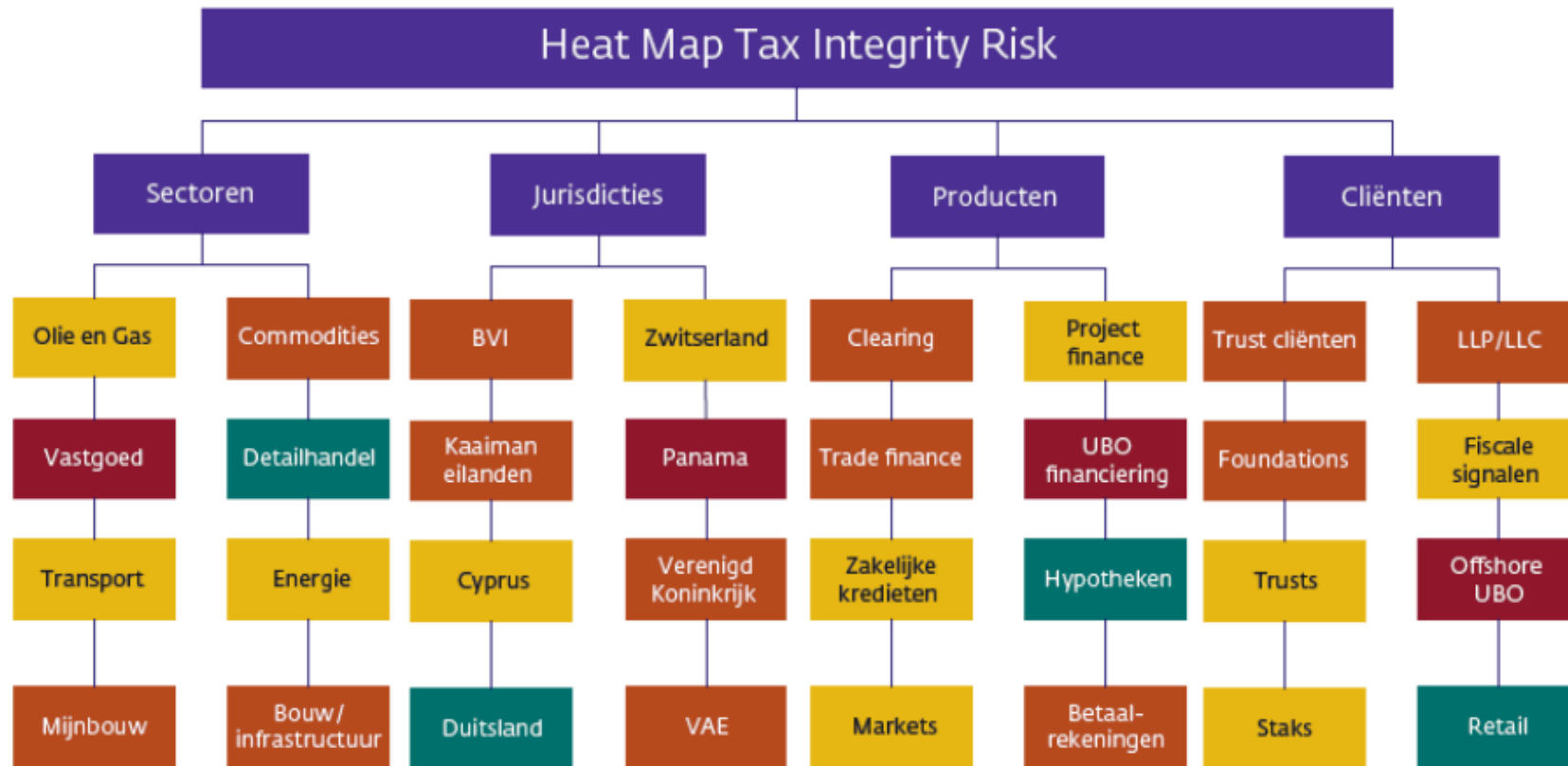
Such metrics are referred to as 'return on data' (**ROD**) rather than **ROI**. There is a clear relationship between ROI and ROD, which runs as follows:

ROD = ROI + a premium platform profit

How to tax the value chain of Google?

	Activities by MNEs						Activities by local third-party actors									
	HQ	Sourcing of data	R&D	Supply chain / own servers	Manufacturing of data	Sales & Marketing of data	Use of platform	Buy through platform	Supply through platform	ISP supporting platform access & traffic	Server parks handling data storage & retrieval	Media agents with sponsored links	Media agents buying data	Transportation facilitators	Financial services	
Development platform	X		X													
Creating data		X	X				X	X	X		X					
Collecting data			X	X					X	X						
Cleansing data			X	X	X					X						
Profiling of data	X		X		X											
Creation of datasets	X		X		X											
Storage & retrieval of data			X	X	X	X				X						
Consumption of data	X		X	X		X				X	X	X				
Monetize & deployment of data	X	X	X	X	X	X					X	X				
Sub total	5	2	9	5	5	3	1	1	1	1	4	3	2	0	0	
Total						29										9-13


How regulators look at the tax integrity risk analysis banks run on tax related issues

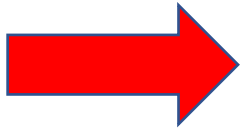


Source: <https://www.toezicht.dnb.nl/binaries/50-237752.pdf>

CbCr report - the first step by tax authorities to 'tax data analytics' of a multinationals' value chain?

Country Snapshot 2019

Country*	Commentary	Audited		Unaudited	Audited		Unaudited			Audited	
		Turnover Em	Profit/ (loss) before tax Em	Total tax paid/ (refunded) Em	Cor- poration tax paid/ (refunded) Em	Social Security paid Em	VAT paid Em	Bank levy paid Em	Other taxes paid Em	Public subsidies received Em	Average number of employees
 United Kingdom	<p>We are one of the largest banks in the UK, with operations spanning all business lines. We have been consistently ranked as one of the top four largest UK taxpayers in the last six years.</p> <p>Various factors mean that the profit we report as being earned in the UK differs from the profits on which we are subject to UK corporation tax. In particular, being a UK-headquartered bank, the profit figure includes dividends received from overseas subsidiaries, which are not taxed in the UK as they have already been taxed in the jurisdiction in which those profits were earned.</p> <p>In 2019, we paid no UK corporation tax. This reflected contributions of £1,231m made to our main UK pension fund and the offset of tax losses brought forward from prior years, as well as overpayments in respect of a number of prior years. In the UK, a contribution to a company pension fund attracts tax relief when the payment is made and, when large contributions are made, this can cause taxable profits to vary significantly from one period to another.</p> <p>The bank levy we paid in 2019 was also reduced as a result of taking into account overpayments made in prior years.</p>	13,717	1,367	1,305	–	412	605	218	70	–	48,241



Trends affecting how value is created

Netflix: Big data and analytics



Key takeaways

1. Describe your business model and value chain.
2. Explain who is doing what (governance).
3. Document your operational transfer pricing.
4. Apply a reasonable allocation of global profits to your group companies.
5. Have a pre-defined set of dispute resolution tools ready.
6. Convert your in house tax workflows into digital to avoid business disruptions.
7. Agree with the board on communication to relevant stakeholders.



Q&A

Appendix: Fully Integrated Approach (Process Contribution Analysis)

Primary Business Processes	Key functions performed (and entities responsible for performing)						
	Unit	Unit	Unit	Unit	License	HQ	OPCOs
Design to build (products)							
Order to cash							
Demand to supply (operational infrastructure)							
Purchase to pay (vendor)							
Finance to manage							
Total # of FTEs in each unit							
Total cost for each unit							