



# **Value chain & Intangibles - Which portion of residual profit to be allocated to intangibles?**

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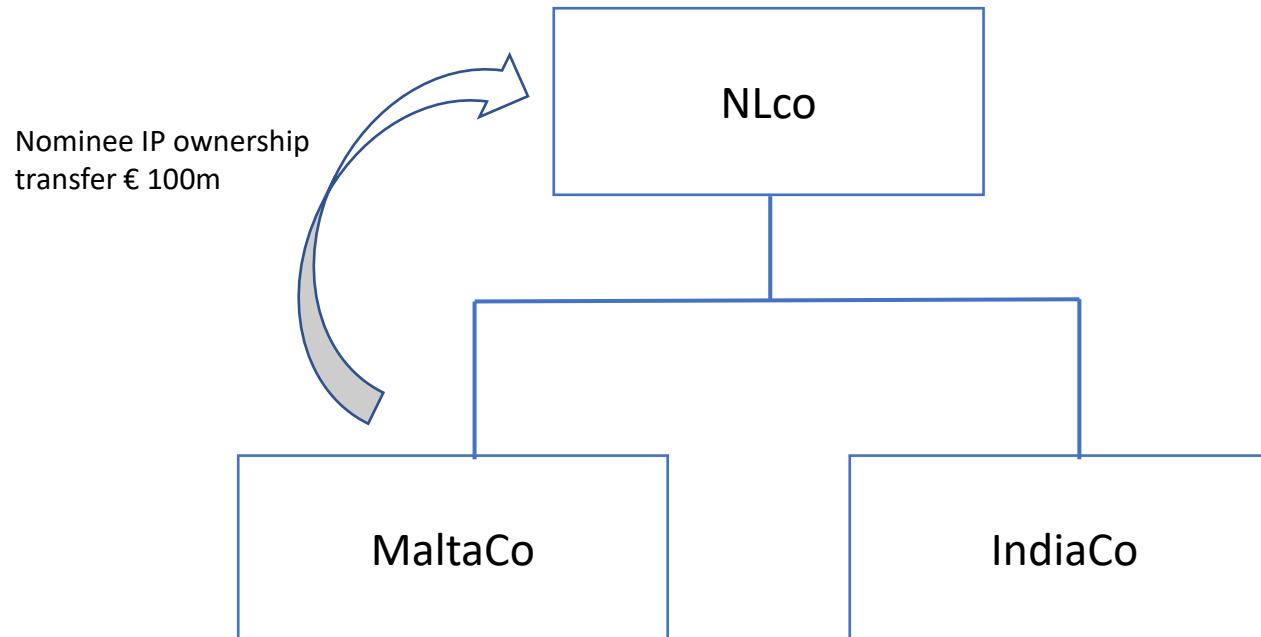
# From offshoring to onshoring of IP by MNEs

- Up to and including FY 2015, lots of companies moved their IP offshore, e.g. Cayman Islands, Singapore, Ireland, Switzerland, Malta, BVI, etc.
- As of FY 2017 onwards MNEs are investigating to onshore their IP portfolio.

**Question:** Is the playing field of international tax principles the same for offshoring vs. onshoring?

- Most of the offshoring of IP portfolio valuation by corporates was based on a DCF method, with a focus on the transferred items being protected or could be protected under IP law.

**Question:** Given the more holistic view on intangibles (i.e. being part of a value chain), would the IP portfolio valuation by corporates for onshoring continue to follow the DCF method?



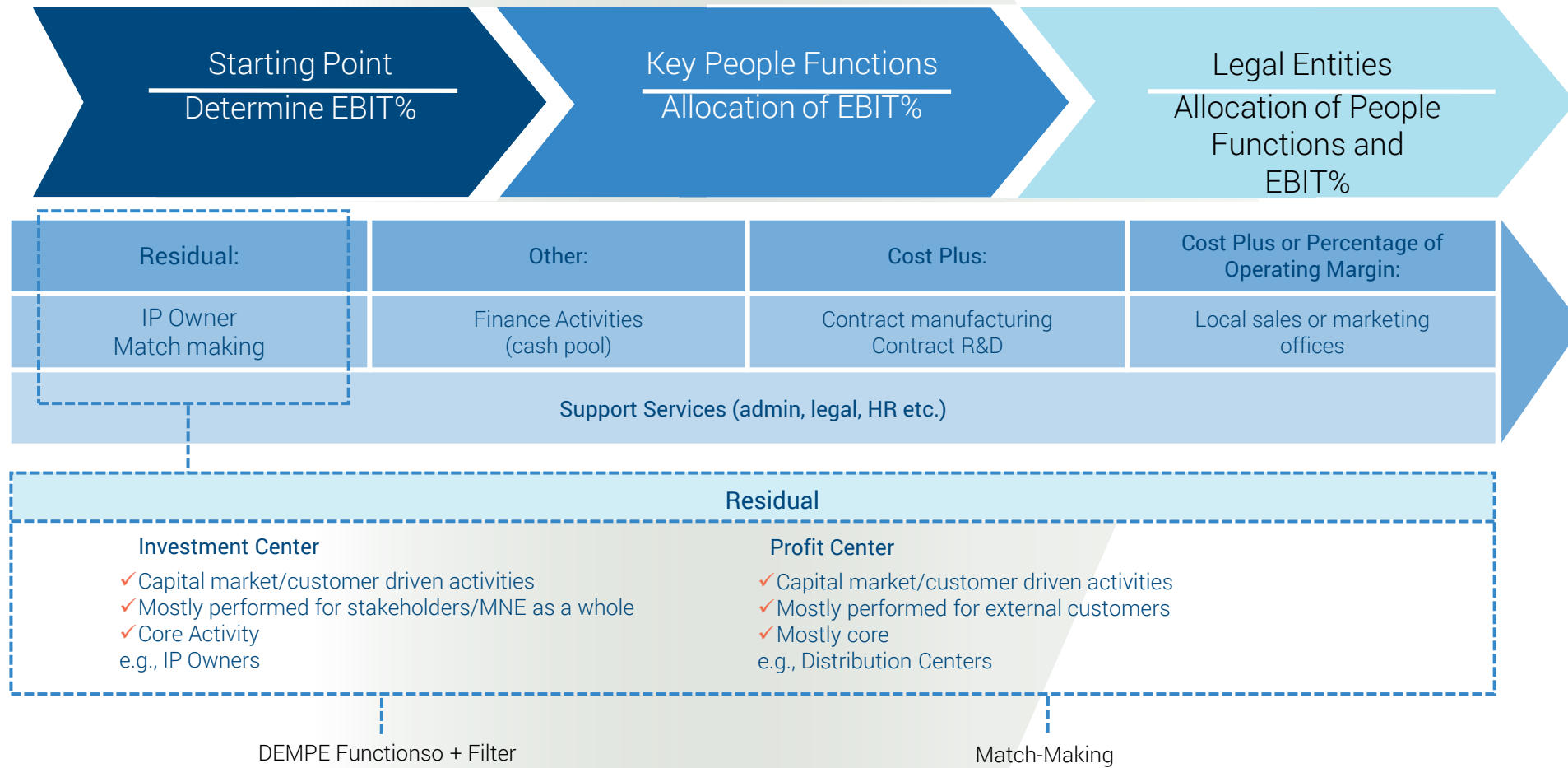
- NLco holds the shares of the two entities. MaltaCo acts as nominee holder (i.e. for IP law purposes) of the IP, which IndiaCo and NLco have been performing the DEMPE functions pre-IPO.
- Post IPO, MaltaCo sells the IP to the NLco for €100m (=DCF of future income – DEMPE costs).
- A nominee holder position only warrants say 5% of total IP value, which equals €5m.
- What are the consequences?

- Beginning 1 January 2020, companies who migrate to and/or remain their principal structure in Switzerland will have a clear legal basis to step up (to fair market value) the tax basis of their assets and goodwill tax-free.
- They may then depreciate their stepped-up basis with a tax effective deduction for a 10-year period.
- Multinationals' total built-in gain including goodwill ("BIG") is a reflection of its people and assets combined with its functions to be a global materials solutions provider, including all patents and brands.

**Question:** Are we looking at a value of legally defined intangibles vs. a much broader definition of intangibles (including goodwill)?

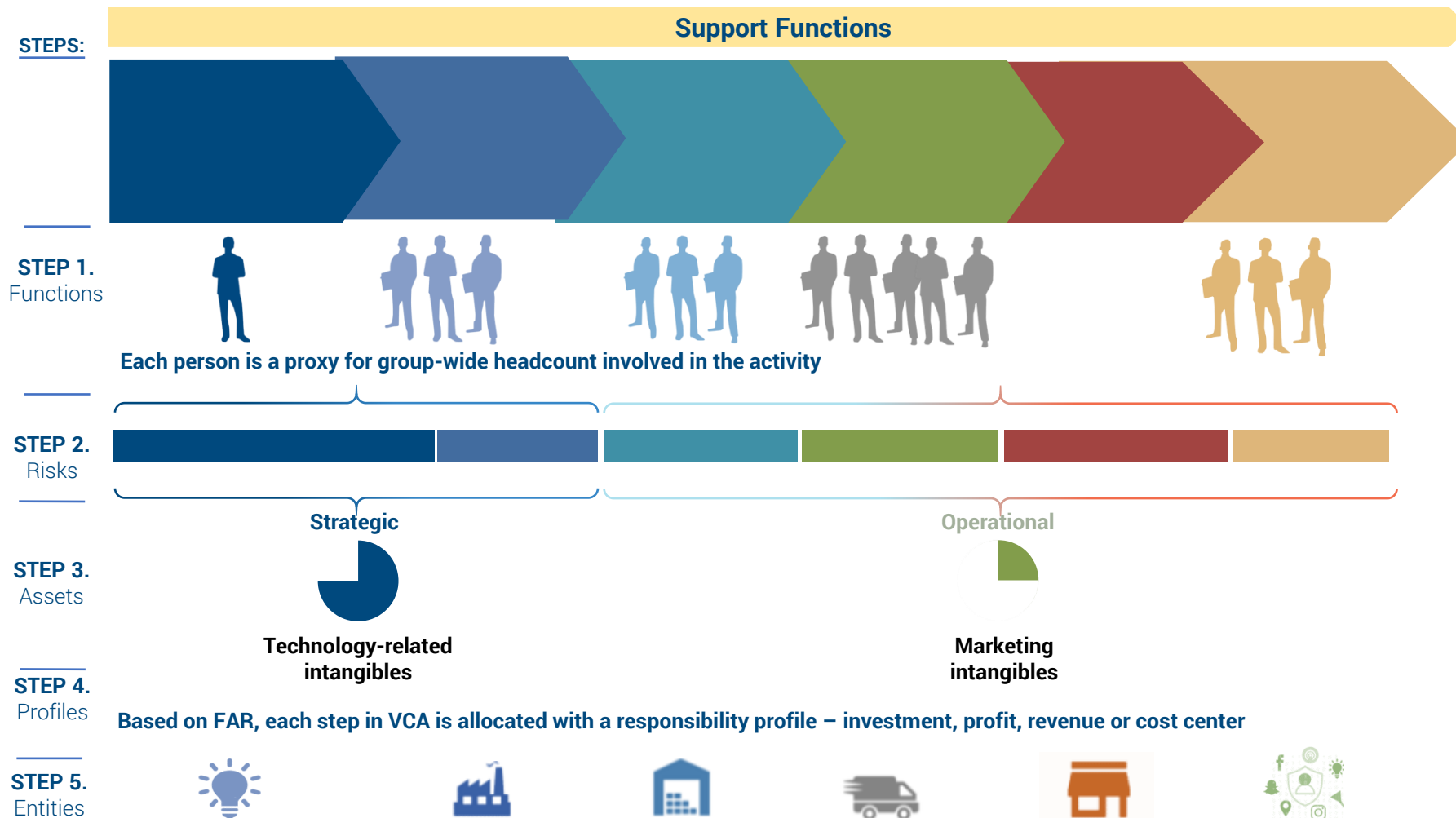
# Appendices

# Quantitative approach to extract the intangibles value from the value chain



Source: TPA Global. - a Development Enhancement Maintenance Protection Exploitation Functions.

# Qualitative Value chain analysis and intangibles



# Quantitative VCA

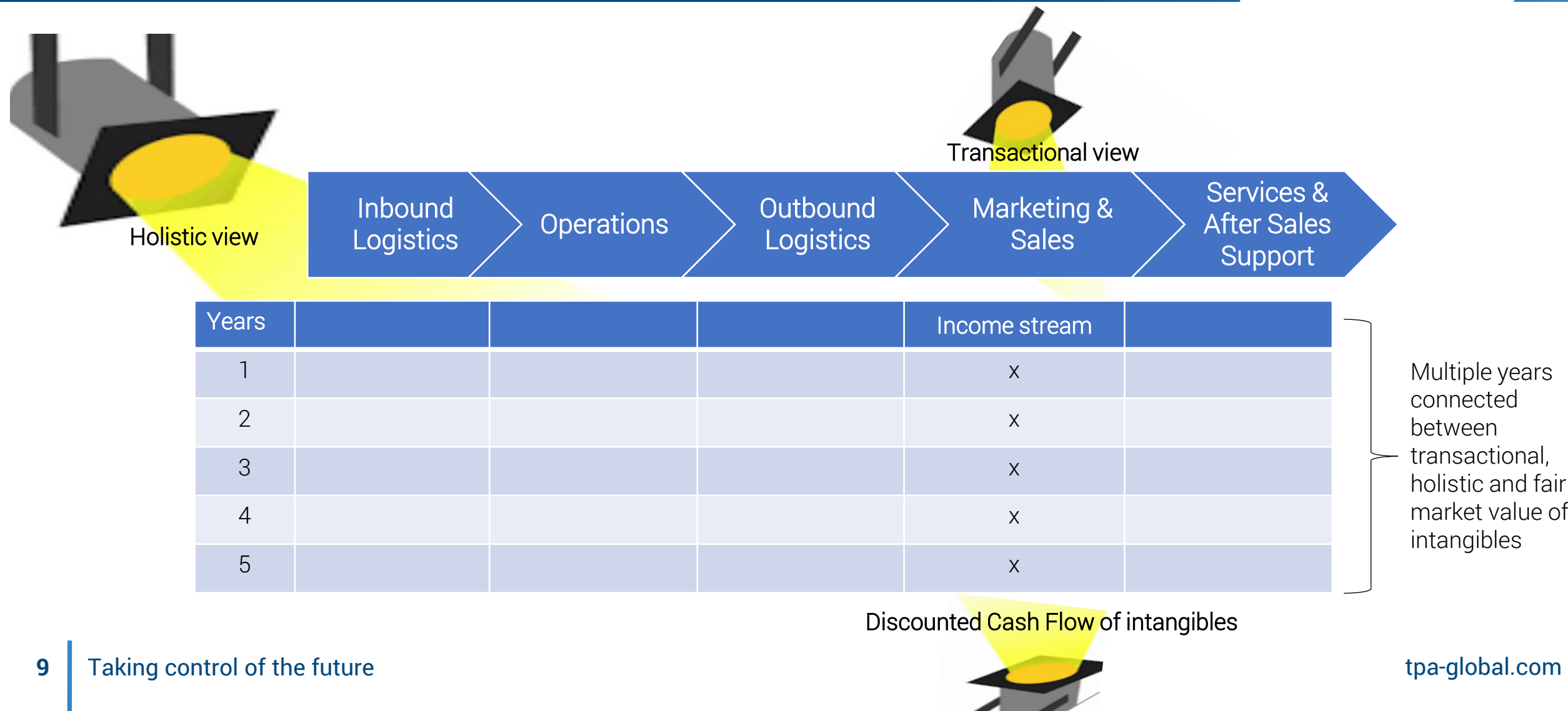
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1. Routine - CC/RC (e.g. TNMM)
2. Non-routine - IC (i.e. CUP)
3. DEMPE cost
4. Non-routine – PC (residual)

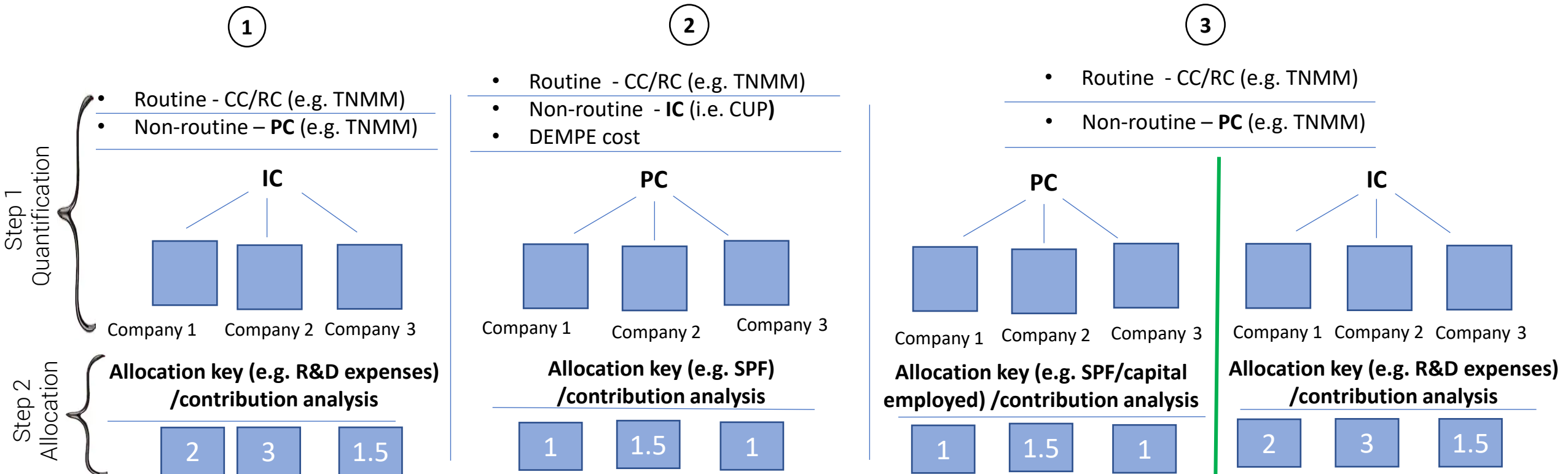
Royalty as percent of sales	DEMPE OPEX	Total EBIT as percent of sales	10.63	14.01	17.92
		Routine functions compensation	2.46	4.17	5.72
		Residual profit	8.17	9.84	12.20
		IC portion		PC portion	
3.75	6.67	-2.92			
10.00	7.32	2.68		7.16	
22.75	7.78	14.97			



# Linking transactional TP to holistic VCA, Discounted Cash Flow and Multipliers



# Complex quantitative VCA



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