

Carried Interests and Other Incentive Plans Combining Structuring and Valuation Expertise



Overview

Carried Interests and other incentive plans provide a powerful incentive to a management team.

These structures are based on various rules and objectives that enable the construction of a complex equilibrium between shareholders and managers with one common goal: value creation.

Such instruments can take many forms (e.g. carried interests, stock ownership plans, management incentive plans, growth shares, etc.) and are widely used in the alternative investment world, in particular in private equity.

The Challenge

These incentive structures are very often tailor-made and specific to the negotiations between a particular set of shareholders and a management team.

The country of domiciliation of both the issuer and the managers will also be crucial in the design of the plan. In many jurisdictions, they are considered part of the compensation package of the management team and as such are subject to specific tax treatment.

In that context, it is essential both for the issuer and for the recipient to ensure that a precise value assessment of the instrument is carried out.

At the same time, the tailor-made nature of the instrument and the inherent complexity can be a challenge even for the most seasoned valuation specialists.

Our Solutions

Being aware of the importance of a well designed and properly valued plan, Deloitte has combined the skills of its tax experts and quantitative valuation specialists to offer an integrated approach to dealing with incentive schemes.

Structuring

Our cross-service line specialists provide comprehensive and practical structuring advice in conjunction with our partnership tax and employee tax specialists on the establishment of funds. We work with both Luxembourg domiciled and non-domiciled structure and individuals.

Valuation

Once the plan has been designed, our valuation team will work hand in hand with the tax advisors to build a valuation model that reflects the specificities of the plan.

Depending on the complexity of the plan to value, we will use either one or both of the following methodologies:

- Black & Scholes pricing formula, and Binomial trees when financial structures and profit sharing schemes are simple enough to be approximated using vanilla options.
- Monte Carlo simulations wherever the complexity of the incentive package requires a more flexible approach

Our ambition is to deliver a comprehensive solution to cover all incentive schemes valuation and structuring needs:

Tax structuring

- Carry and incentive plans structuring
- Partnership tax advice
- Employee tax advice
- Establishment of funds



Valuation of Plan

- Carry and incentive plans modelling in accordance with legal documentation
- Combine option valuation techniques to provide reliable valuation

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