



# Taxlab 2017

## Four Faces of Tax

### Value Chain Analysis

#### **Taxlab 2017**

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# Agenda

- Why a value chain analysis?
- What is a value chain analysis?
- Changes in transfer pricing world
- Value chain defined
- Global Tax Reset impact on value chains
- Value chain analysis as part of transfer pricing documentation
- Process for analysis
- Value Chain Analytics Tool

Today's transfer pricing environment requires an understanding of your value chain

One of the objectives of the OECD's Base Erosion and Profit Shifting (BEPS) project is to develop transfer pricing guidelines that align transfer pricing outcomes with value creation.

This requirement increases the need for multinational companies to holistically review how profits and functions are mapped to the organisation's overall value chain.



A value chain analysis creates a context for the pricing of transactions between entities by assessing the relative contributions made by each entity to the overall business.

## What is a Value Chain Analysis and why is it helpful?

### What is a Value Chain Analysis?

BEPS Actions 8 – 10 require the consideration of the overall value chain to contextualise the transfer price of transactions.

A value chain analysis separates a business into a series of value generating functions.

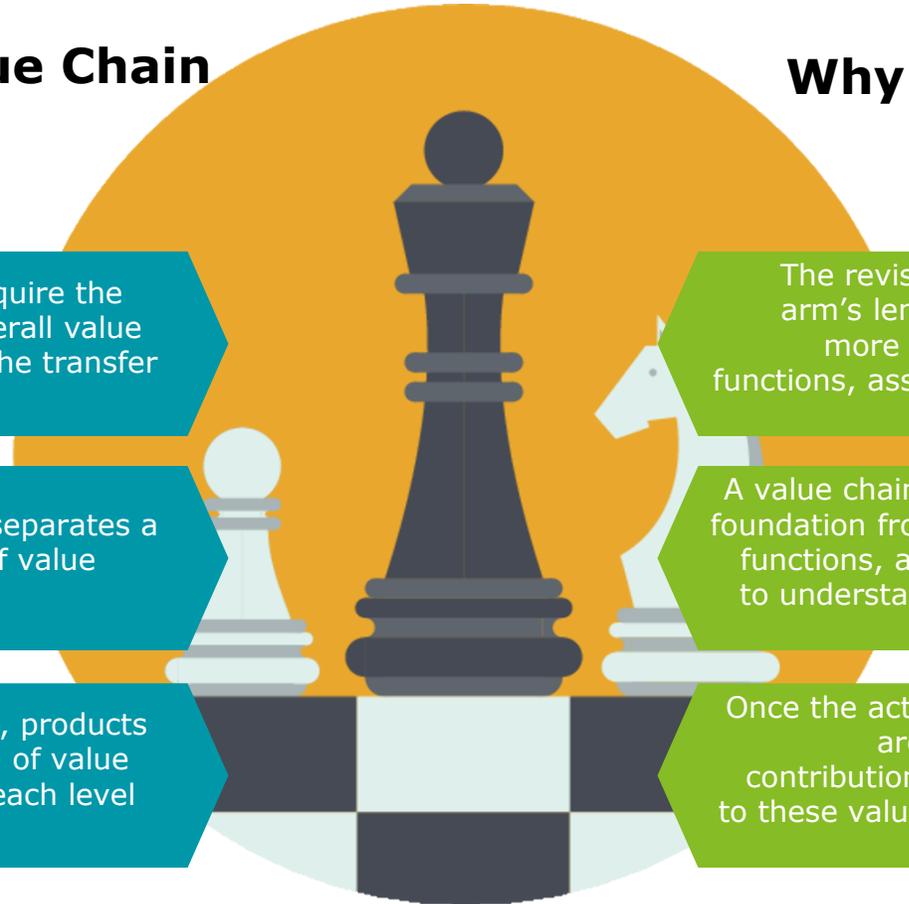
To assess a value chain, products pass through each level of value chain functions and at each level gain some value.

### Why is it helpful?

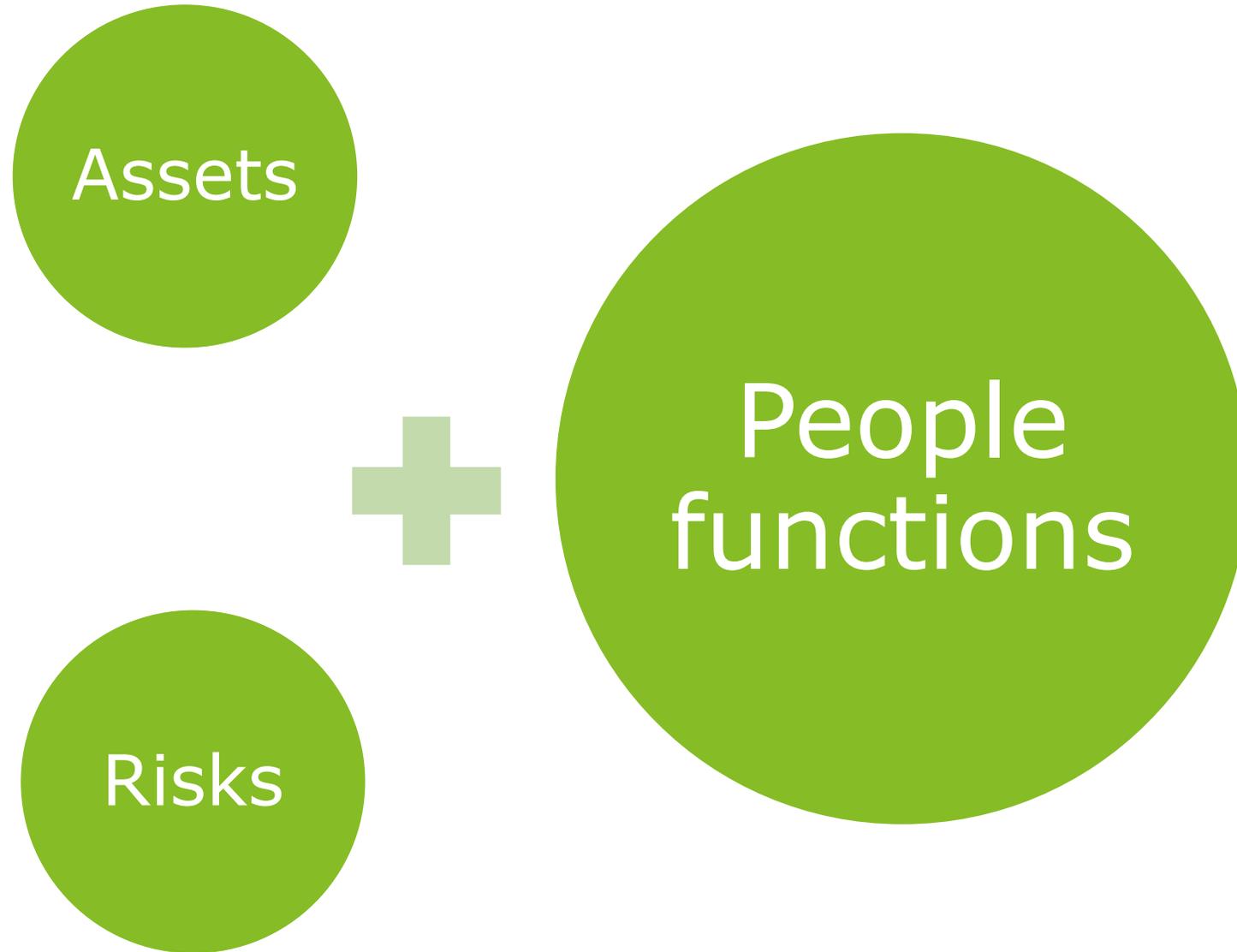
The revised interpretation of the arm's length principle requires a more granular analysis of the functions, assets and risks controlled by a business.

A value chain analysis can provide a foundation from which to identify the functions, assets and risks, helping to understand activities that create value.

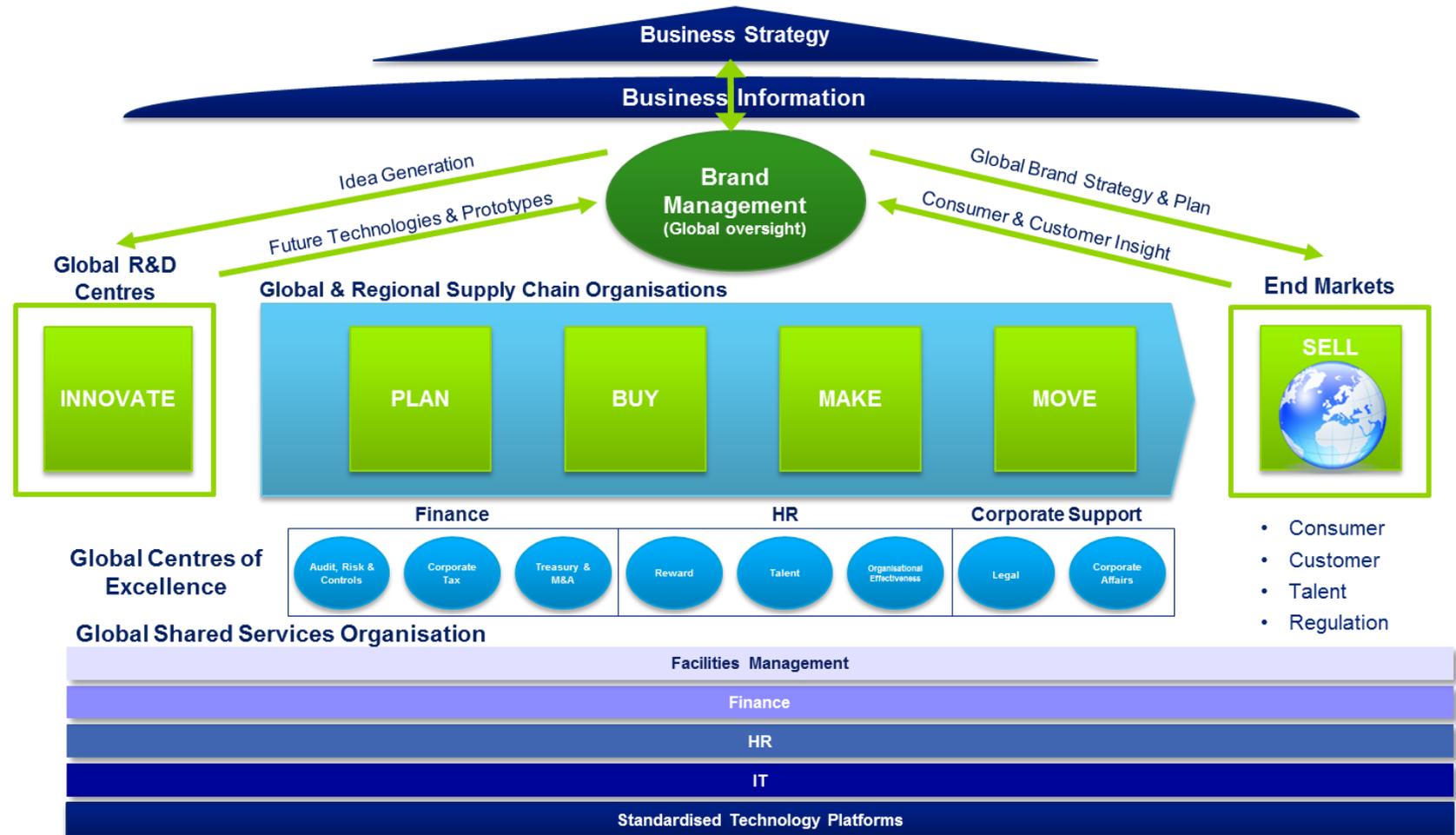
Once the activities that create value are identified, the relative contribution of each entity/country to these value creating activities can be further analysed.



The New  
transfer  
pricing...



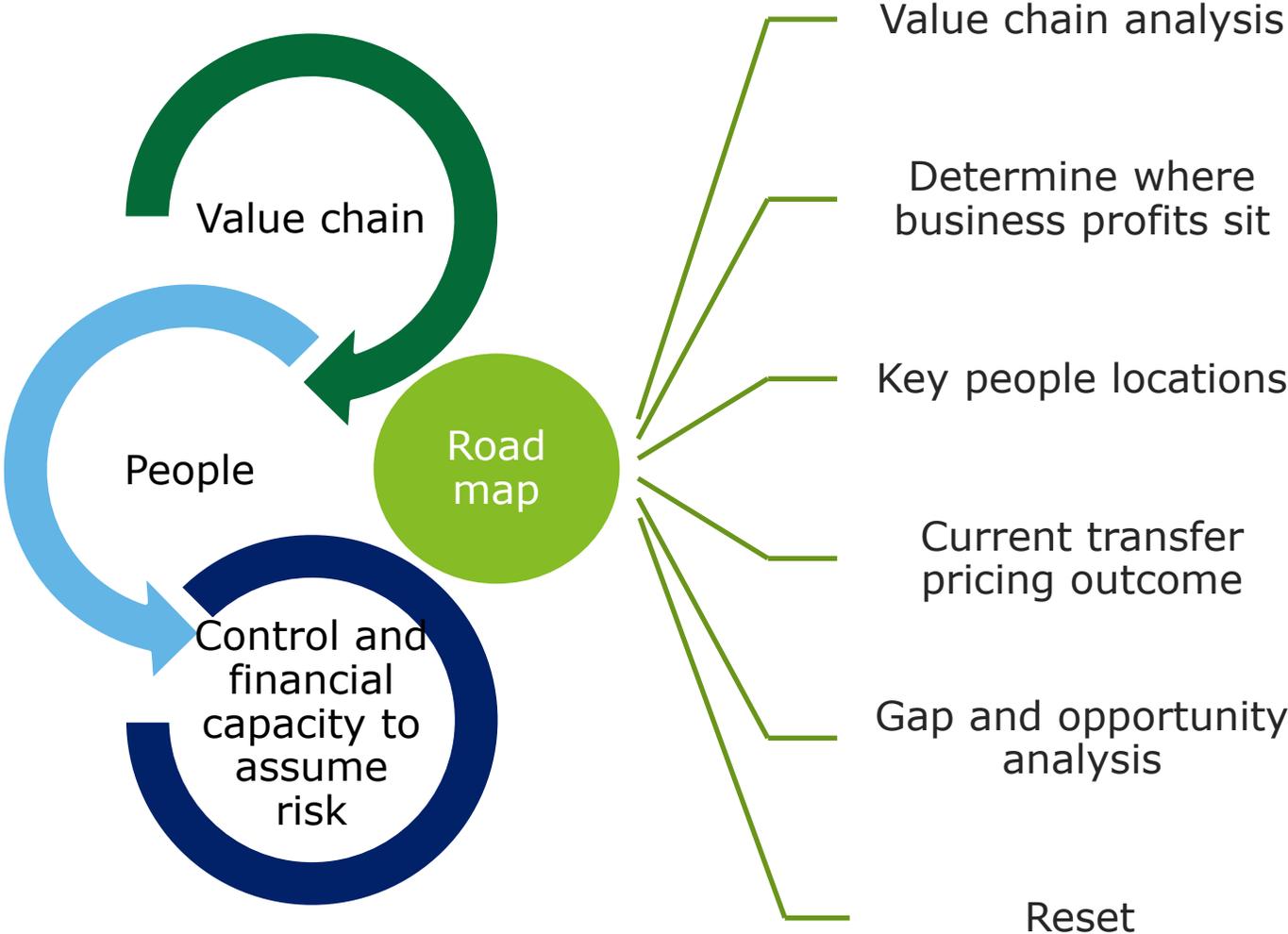
How is the value chain defined?



Business profits – global value chain

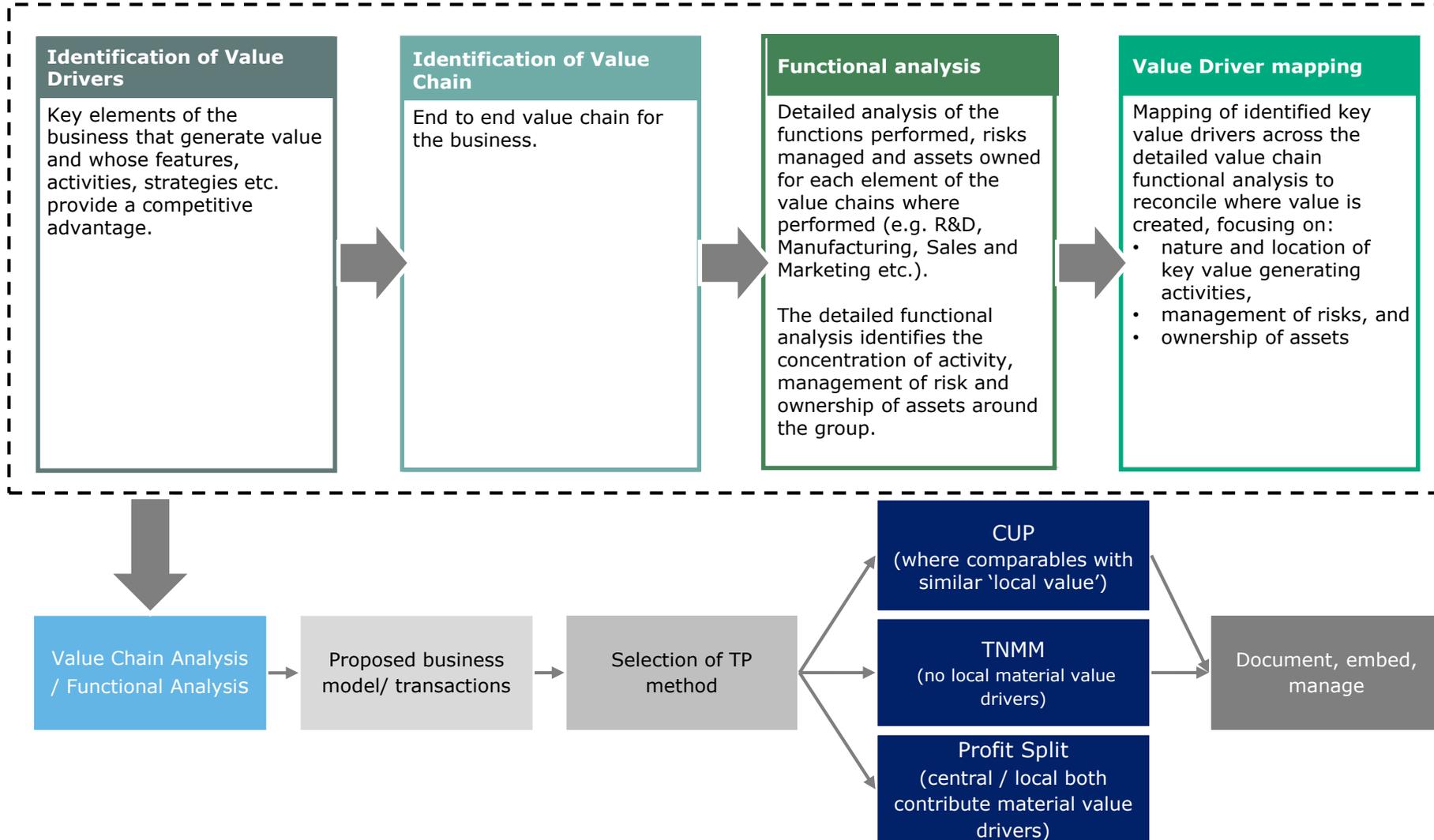


# Assessing the impact of GTR on the value chain

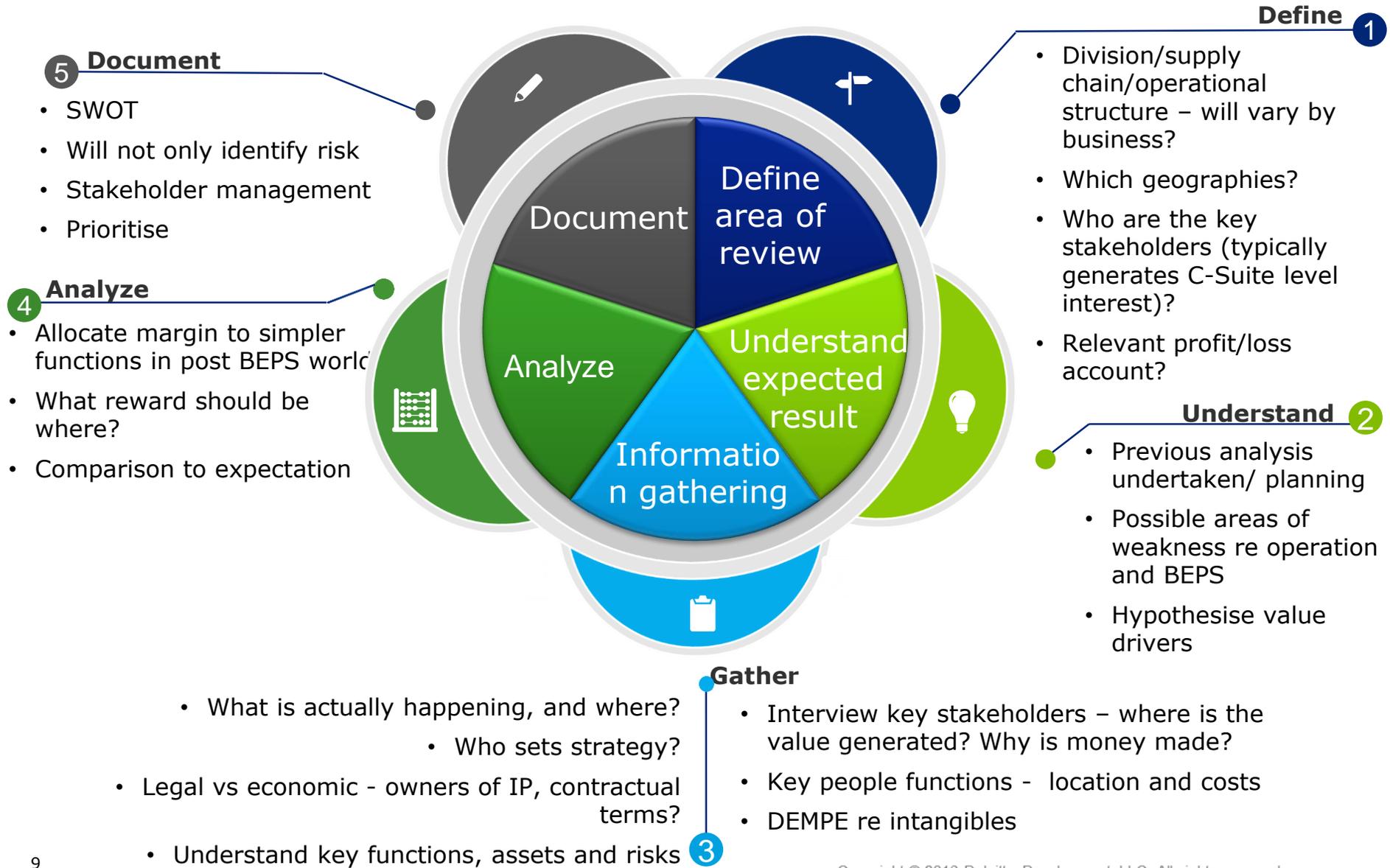


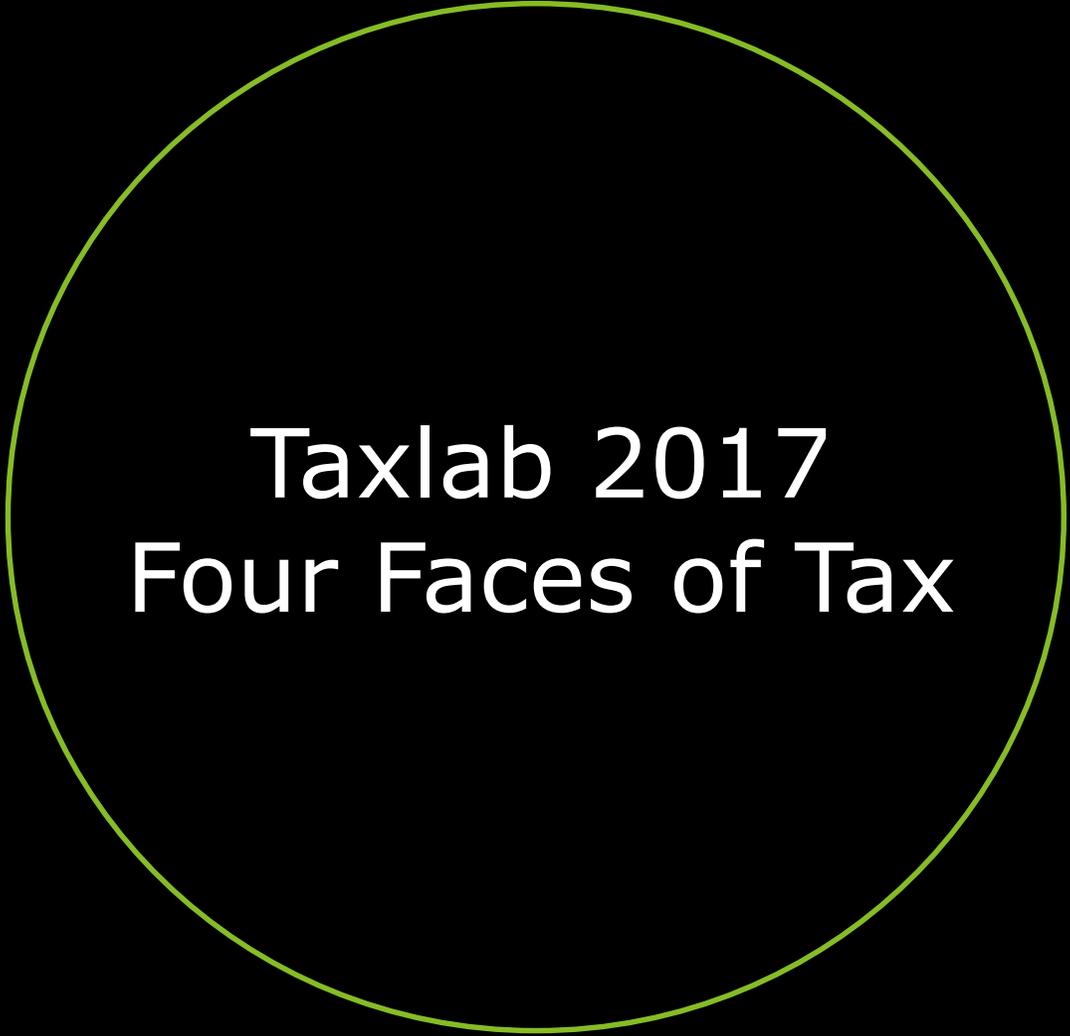
# Example - Part of TP documentation process

Deloitte's value chain analysis provides the foundation for the transfer pricing work that is needed to comply with the evolving transfer pricing compliance landscape.



# Value chain analysis process





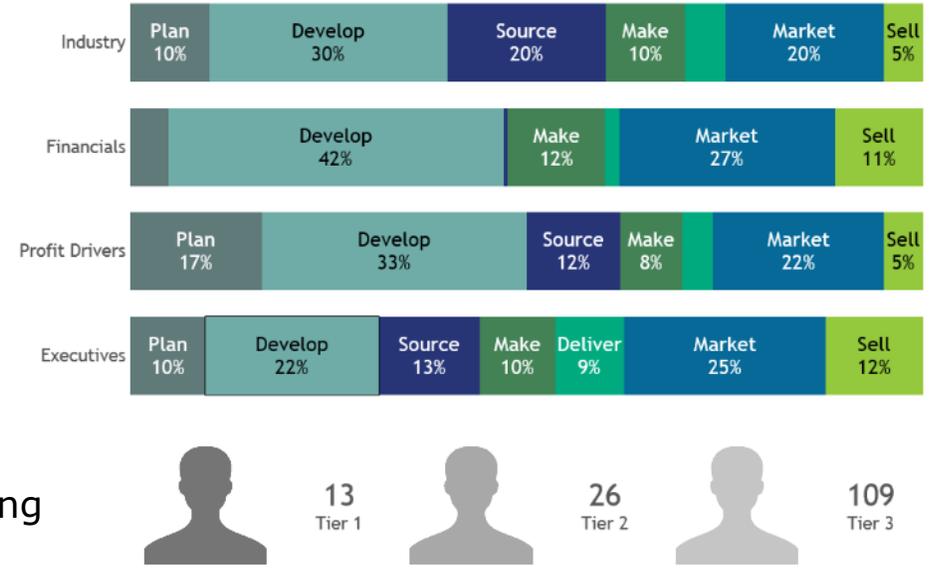
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# Value Chain Analysis: Phase I

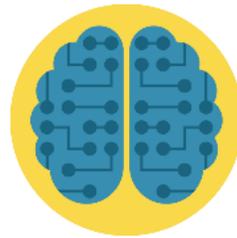


## Value Chain analysis

- Understanding of the Profits Drivers
- Understanding of the Industry
- Understanding of the Financials
- Understanding of the Executives' Functions/Roles
- Deliverable summarising workshop results



## Required Data



- Operating profits by country/function
- Employee organisation chart by country/function/grade level

## Additional Data



- Profit & Loss by country/function/legal entity
- Balance sheet by country/function/legal entity
- Country-by-country reporting data

## Phase II – Detailed value chain analysis and review

### Value Chain Analysis: Phase II

Document and defend transfer pricing policies and positions

Manage any inconsistencies in application of transfer pricing policies

Align transfer pricing with detailed analysis of the value chain

Consider opportunities for further alignment of business and value creation





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