Taxlab 2017
Four Faces of Tax
Value Chain Analysis
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
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.

Today’s transfer pricing environment requires an understanding of your 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**

- 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

- Value chain analysis
- Determine where business profits sit
- Key people locations
- Current transfer pricing outcome
- Gap and opportunity analysis
- Reset
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

1. Define
   - Division/supply chain/operational structure – will vary by business?
   - Which geographies?
   - Who are the key stakeholders (typically generates C-Suite level interest)?
   - Relevant profit/loss account?

2. Understand
   - Previous analysis undertaken/ planning
   - Possible areas of weakness re operation and BEPS
   - Hypothesise value drivers

3. Gather
   - Interview key stakeholders – where is the value generated? Why is money made?
   - Key people functions - location and costs
   - DEMPE re intangibles

4. Analyze
   - Allocate margin to simpler functions in post BEPS world
   - What reward should be where?
   - Comparison to expectation

5. Document
   - SWOT
   - Will not only identify risk
   - Stakeholder management
   - Prioritise

- What is actually happening, and where?
- Who sets strategy?
- Legal vs economic - owners of IP, contractual terms?
- Understand key functions, assets and risks

Copyright © 2016 Deloitte Development LLC. All rights reserved.
Taxlab 2017
Four Faces of Tax

Value chain analytics
Value Chain Analysis:
Phase I

- 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
Value Chain Analysis: Phase II

- Document and defend transfer pricing policies and positions
- Align transfer pricing with detailed analysis of the value chain
- Consider opportunities for further alignment of business and value creation
- Manage any inconsistencies in application of transfer pricing policies
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.nl/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries bringing world-class capabilities, insights, and high-quality service to address clients’ most complex business challenges. To learn more about how Deloitte's approximately 225,000 professionals make an impact that matters, please connect with us on Facebook, LinkedIn, or Twitter.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.