



# The Next Generation of Benchmarking

- Performing a quantitative value chain analysis based on objective standards



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## The relevance of VCA

Value Chain Analysis (VCA) was incorporated into the regulations following the OECD/G20 BEPS initiative (BEPS Actions 8 - 10), and subsequently, embedded in the OECD Transfer Pricing Guidelines 2017. The importance of VCA in the OECD Transfer Pricing Guidelines, 2017, is revealed in their collective title: *"Aligning Transfer Pricing Outcomes with Value Creation"*.

In combination, the changes reflected in the OECD Transfer Pricing Guidance, 2017, should essentially result in aligning transfer pricing outcomes with the value creating activities performed by members of an MNE group, by taking an holistic economic view on these activities.

A combined qualitative and quantitative VCA constitutes an important tool can provide such an holistic economic view on the activities of the MNE group.

## TPA Global's approach to qualitative and quantitative VCAs

Based on its extensive experience performing qualitative and quantitative VCA for its clients, TPA Global has developed an unique approach conducting qualitative and quantitative VCA, comprising the following steps:

**Step 1:** Performance of a qualitative VCA, including the identification of the key value drivers, functions, unique and valuable intangibles, assets, risks, efficiencies/synergies, DEMPE functions and an MNE peer group comparison.

**Step 2:** Conducting a quantitative MNE peer group data analysis to identify the economically relevant variables for the industry through correlation and regression analyses.

**Step 3:** Comparing the quantitative VCA performed for the MNE against the outcome of the industry-wide correlation and regression analyses.

**Step 4:** Identifying relevant allocation keys to tie the results of the quantitative VCA back to local entities to compare with the results stemming from the applied transactional transfer pricing model by the MNE group.

**Step 5:** TPA Global will use a scoring model to assess whether the quantification method and allocation keys used to quantify and allocate value across entities in the MNE group are BEPS compliant.

**Step 6:** Establishing a benchmark based on the quantification and the relevant allocation key(s), within the results of the quantitative VCA are allocated back to the local entity.

## Your benefits

- By implementing steps 1 to 6:
  - BEPS-compliant alignment between quantitative VCA and the transfer pricing model;
  - One story of the truth: aligned Master File, Local File, CbCR and tax return;
  - Anchoring your value chain against your peer group.
- A powerful tool that can reasonably satisfy tax authorities' growing interest to evaluate taxpayers' total value chain before evaluating appropriate allocation of profits to specific transactions.

Please feel free to contact one of the persons mentioned below for more information.



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1The variables used to do a correlation/regression analysis will be such that they can be regarded as admissible statistical, economic and econometric techniques before the courts. For this purpose, guidance provided by the OECD, IRS and country specific regulations will be relied upon.

