

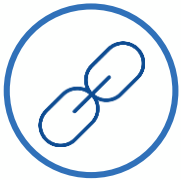


# VALUE CHAIN ANALYTICS



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# A BRIDGE TO ALIGN OPERATING AND GOVERNANCE MODELS WITH TAX/TP SET-UP



## WHAT IS VALUE CHAIN ANALYSIS

The value chain refers to the entire performance process of a company, which begins with the research and development and ends with the delivery to the end consumer. While a functional and risk analysis is geared to individual group companies, a value chain analysis applies on cross-company processes within the Group.

As there is no objective method to conduct a value chain analysis, the basic approach to be followed for any value chain analysis should start with identifying the industry-wide value chain and mapping the value linkages of the MNE within the industry. A value contribution analysis should contain evidence as to what prices, cost premiums, margins, etc. are, in light of the economic contributions of individual companies, considered reasonable.



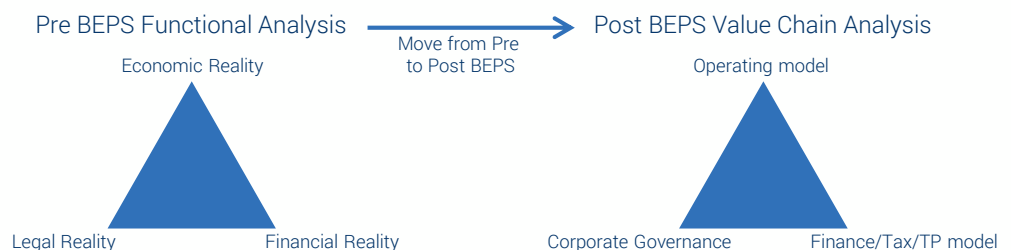
## IS THERE A BURNING REQUIREMENT FOR VALUE CHAIN ANALYSIS?

YES! This is because of the following key reasons:

- BEPS = Full tax transparency i.e. it drives the requirement of performing a full value chain analysis to stay “in control”
- BEPS = a merger of residence of “taxable income” with the residence of “people functions” responsible for generating it;
- BEPS feeds “greed at the level of tax authorities”, i.e. the wide and/or different interpretations by different countries’ tax authorities of the BEPS/TP guidance can trigger even more than double taxation on the same profits;
- BEPS has already triggered some tax authorities to:
  - Open the hunting season for aggressive tax structuring(s). For example, the Australian Tax Office; and
  - Request a full value chain disclosure in TP local country files and CbC reporting. For example, the Chinese Tax Authorities require a full VCA effectively as from January 01, 2016.

This means that the only way an MNE can defend its current tax/ TP structure is through:

- Full transparency on tax sensitive data;
- Complete analysis and disclosure of their value chain;
- Syncing its corporate governance, operating model and tax/TP structure in the same way as syncing its economic, legal and financial realities.





### WHAT WE OFFER?

TPA Global has been conducting value chain analyses for over 10 years, assisting corporates in:

1. allocating appropriate segments of income to each group entity; - Software solutions are offered by TPA to facilitate any type of "slicing the pie";
2. identifying and implementing actions on key value drivers to improve their operating margin;
3. identifying a breakdown of 'value creating' activities so that the management board understands which of their activities 'make the clock tick'.

The BEPS Project is now mandating the use of value chain analysis and its inclusion in TP documentation to achieve (1), (2) and (3) above. With over 1000 professionals trained in value chain analyses, TPA Global is one of the world leaders in offering industry-specific value chain solutions!



| Strategy  | Techniques  | References  | Industry  | Business Models  | Slicing the pie   |
|---|---|---|---|--|---|
| 1. Determine the need to change strategy<br>2. Competitor Analysis<br>3. Implement a change in strategy | 1. Pie charts<br>2. Porter's method<br>3. Process contribution Analysis<br>4. Canvas Approach | 1. Why are references important<br>2. OECD References<br>3. Country Specific References<br>4. Academic References | 1. How to determine MNE's position in an industry<br>2. MNE Leadership Matrix<br>3. Three generations of governance and control | 1. Shelf-life of business models<br>2. Measuring "wall-to-wall" profitability<br>3. Operational aspects of conducting a business and implementing new strategy | 1. Focus on quantitative aspects of VCA<br>2. How to slice the pie between investment and profit center<br>3. Project management on VCA |



### WHAT ARE YOUR KEY BENEFITS?

- Prepared for OECD compliant tax/TP documentation
- Prepared for tax/TP documentation to be provided to Chinese and other local tax authorities
  - implementing mandatory VCA
- Increased operational efficiency as well as profit margins throughout your organization
- Arm's length allocation of income to group entities taking into account relevant people functions
- Avoid using one-sided approaches to allocate profits that are currently being questioned



### WHY TPA GLOBAL?

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