The Cost-based Value Chain Analysis

- A proposal for international tax and digitalisation issues

The proposed CVCA allocates consolidated multinational profits in proportion to **significant** business activities and **benefits** consumption, as reflected by **costs and expenses** in a jurisdiction.

Allocating **proportionate** shares of consolidated profit to significant units of costs and expenses.

Significant business activities hold high proportions of costs and expenses of the 'business as a whole'.

Business **costs and expenses**.

Jurisdictional **benefits**.

Underlying concepts

Each unit of business consumption/*cost participates equally in* creating consolidated *profit* and profitability for the group.

All business consumption is *represented by revenue expenses and costs.*

Jurisdictional benefits are *evenly distributed* across business consumption.

The contribution of an activity to profitability or how well a **benefit** that was consumed by the business is later on *utilised* by the business is not relevant for the CVCA.

Varying factor	Collection and processing of user data	Operation of a data centre
Contribution to profit (assumed)	↑	↓
Inputs represented by cost (derived)	↓	↑
∴ Benefits consumed, as part of inputs (proportionate)	↓	↑

Percentage of total costs	
Firm infrastructure	2%
Service (after sales and maintenance of sales)	5%
Procurement (suppliers, inputs) and Inbound logistics	6%
Human resources	7%
Marketing and sales and Outbound logistics	21%
Operations	25%
Technology development	34%
Total costs	**100%**

The consolidated profits will be cross allocated to their jurisdictions corresponding to significant cost-consuming activities that cross a threshold.

Significant value chain activity	Jurisdiction 1	2	3	4	5
Technology development					
Operations					
Marketing and sales and Outbound logistics					
Human resources					

Key features of the CVCA

- Based on the benefit theory, single tax principle and single entity principle.
- Simplicity and certainty: expenses and costs are already thoroughly evidenced for financial reporting purposes.
- Avoids discriminative policy consequences: ascertains significance to the 'business as a whole' from the self-analysis of a business's own value chain.
- Flexibility: costs trace a variety of activities and their concentration in jurisdictions.
- CVCA elements can be incorporated into PE recognition, minimum taxation and as a proxy for the proposed CCCTB (EU).
- Tackles artificial segregation of income from business activity and scale without mass in digitalisation.
- Consolidation adjustments: adjusted costs and expenses naturally reflect only independent and arm's length prices (third-party).
- Derives a unique, yearly rate of return to expenses from the consolidated performance of each business. Offering protection to the tax base in developing countries by protecting a unique global ratio for tax base to business consumption.

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