Managing risk and unlocking the value of innovation

KPMG webinar

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With you today

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Agenda

01 Interactions of innovation and tax
02 Why act now?
03 Case studies
04 Q&A
Interactions of innovation and tax
Evolving tax landscape

- DEMPE/control of risk post BEPS
- Audit scrutiny
- UK PDCF
- Attractive incentive regimes
‘DEMPE’

Clarified TP rules outline that entitlement to intangible-related returns should be determined by the party(ies) contributing to their:

- Development
- Enhancement
- Maintenance
- Protection
- Exploitation
OECD guidance on risk control

Control of risk is key to identifying where DEMPE is occurring:

**Control of risk = capability (and actual performance) to:**

— to take on/decline risk-bearing opportunities
— to respond to the risks associated

**Examples of relevant R&D decisions:**

— Type of research and objectives
— Who performs the research and whether to take specialist input
— Assessing progress and whether to continue

Contract R&D arrangements may remain appropriate depending on the facts
Role of innovation in the value chain

Companies managing R&D differently
- Centralised vs decentralised
- Defence strategy vs growth engine

R&D spend increasing

US$ 1.7 trillion
US$ 2.3 trillion

Percentage GDP spend on R&D

Sources: OECD, UNESCO Institute for Statistics
Innovation incentives - Global view

R&D incentives and IP reliefs are in place in over 40 countries.

Cash and tax savings generated through these reliefs are more important than ever.

Multinational groups should consider how best to derive value from their R&D and IP, including considering:

— The **innovation strategy** for the group;
— **Funding of R&D globally**; and
— How R&D incentives can **reduce the impact of wider global tax reform**.
Innovation incentives

UK innovation incentives are competitive

Research and Development Expenditure Credit ‘RDEC’:
— 12% cash credit
— Impacts P&L and increases EBITDA

Patent Box:
— 10% tax rate on profits from patented innovations
— Benefits linked to R&D effort

Capital allowances and grants:
— R&D allowances 100%
— New ‘structures and buildings allowances’ 2%
— Suite of grants to incentivise buildings and employment in certain areas and pillars of industrial strategy
Manage risk and unlock value

What does this mean?

— Understand the role of innovation in your organisation
— Focus on securing TP outcome and maximising access to incentives
— Consistency of story across TP documentation and R&D claims
— Shape organisations and processes to maximise access to credits
— Mitigate tax authority challenge/unexpected costs
Why act now?
Profit Diversion Compliance Facility (‘PDCF’)
01 Technology group

IP owner and developer

IPCo

- DEMPE vs activities required for R&D
- IP Board governance structure
- Interaction with broader business teams
- Evidencing decision-making – Board minutes/legal agreements
- Securing R&D incentives

Global R&D supervision

UK Trading Co

Contract R&D provider

RoW OpCos

1. Define strategy
2. Develop customer proposition
3. Manage product portfolio
4. Develop product
5. Sell to customer
6. Operate and service product
Manufacturing group - Digital CoE

- Value of software innovations relative to existing IP
- Supporting DEMPE activities in existing IP owner vs exit risk for IP
- Value for innovation and access to UK Patent Box
- Access to R&D incentives through EPW of US branch
Operational HQ

Services

R&D centres

Contract R&D services

IP Owners

Services

IP license

Distributors

— Relative value of IP/innovation in sector can vary significantly – big pharma vs off patent portfolio cos
— Value of IP relative to supply chain management and commercialisation activity
— Imperative to focus on most advantageous R&D regime
How effective are your innovation efforts?

- Are your processes to direct and review R&D fit for purpose?
- Are your staff sufficiently diverse and incentivised to produce high quality R&D?
- How do your metrics (e.g. R&D expenditure, ROI) compare against peers?
- Does your organisational structure promote innovation?
- How aligned and integrated is your corporate strategy towards innovation?
- Which networks and linkages are your R&D functions using and are they effective?
- How effective is your project portfolio in delivering innovation?
- How successful is your organisation at commercialising innovations?
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Thank you
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