

UNECE Task Force on Exchange and Sharing of Data  
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## **R&D Capitalization: Where did we go wrong?**

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Statistics  
Netherlands

# Issues covered

The SNA fixed asset approach: does one size fits all?


$$Y = K^{\alpha} L^{\beta} R^{\gamma}$$

OUTPUT      CAPITAL      LABOR      R&D

1. The distinction between knowledge and a knowledge asset in the SNA sense (*Not Further Discussed*).
2. How is R&D connected to the MNE's global production chains?
3. Are national accountants able to 'look through' IP driven tax planning arrangements?
4. Conclusions.
5. Recommendations.

# R&D in MNEs



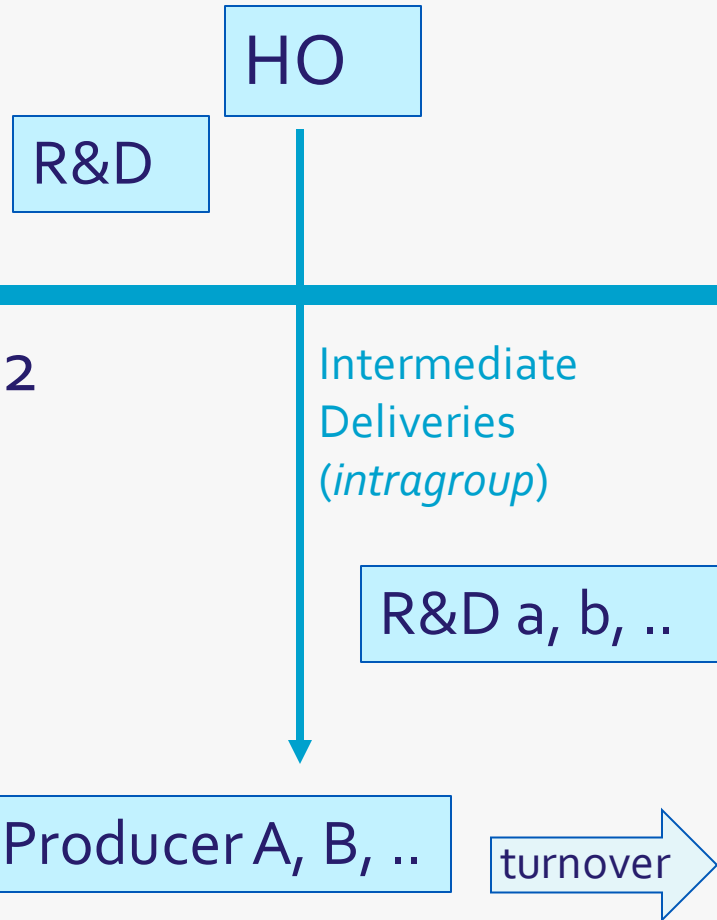
## 2. How does R&D enter the MNE?

- Decisions on R&D programs are strategic and tend to occur high in the organizational structure;
- R&D input is indirect and upfront;
- Product development tends to interfere with entire supply chains;
- R&D facility locations are not necessarily related to output locations...

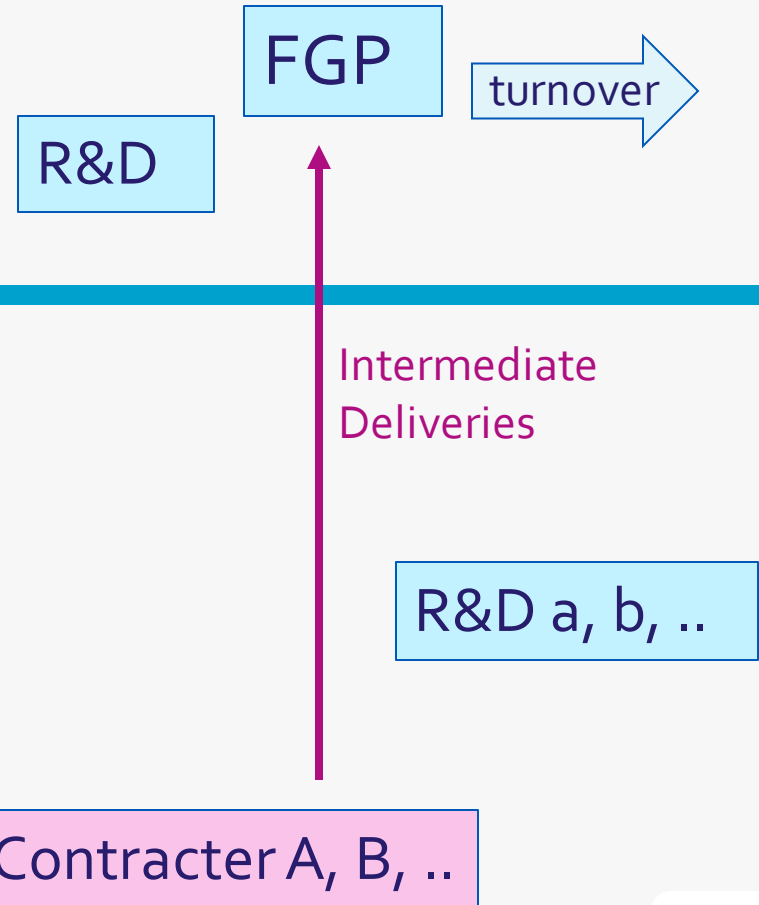


## 2. How does R&D enter the MNE?

S.1 Vertically integrated producer



Factoryless goods producer



S.2

## 2. How does R&D enter the MNE?

The establishment serves as the unit of production:

$$Y = K + L + E + M + S$$

- R&D assets cannot be assigned to establishments
- R&D expenditure (Frascati) is collected at the level institutional sectors: the enterprise (group);  
-> Should the SNA assign R&D ownership to the enterprise (group)?  
-> Should we totally abandon the establishment as unit of production?



# Role of IP in tax planning



# 3. IP driven tax planning



Two examples:

1. Google: 'Double Irish Dutch Sandwich'
2. Nike: 'De commanditaire vennootschap'

....but the same kind of arrangement.



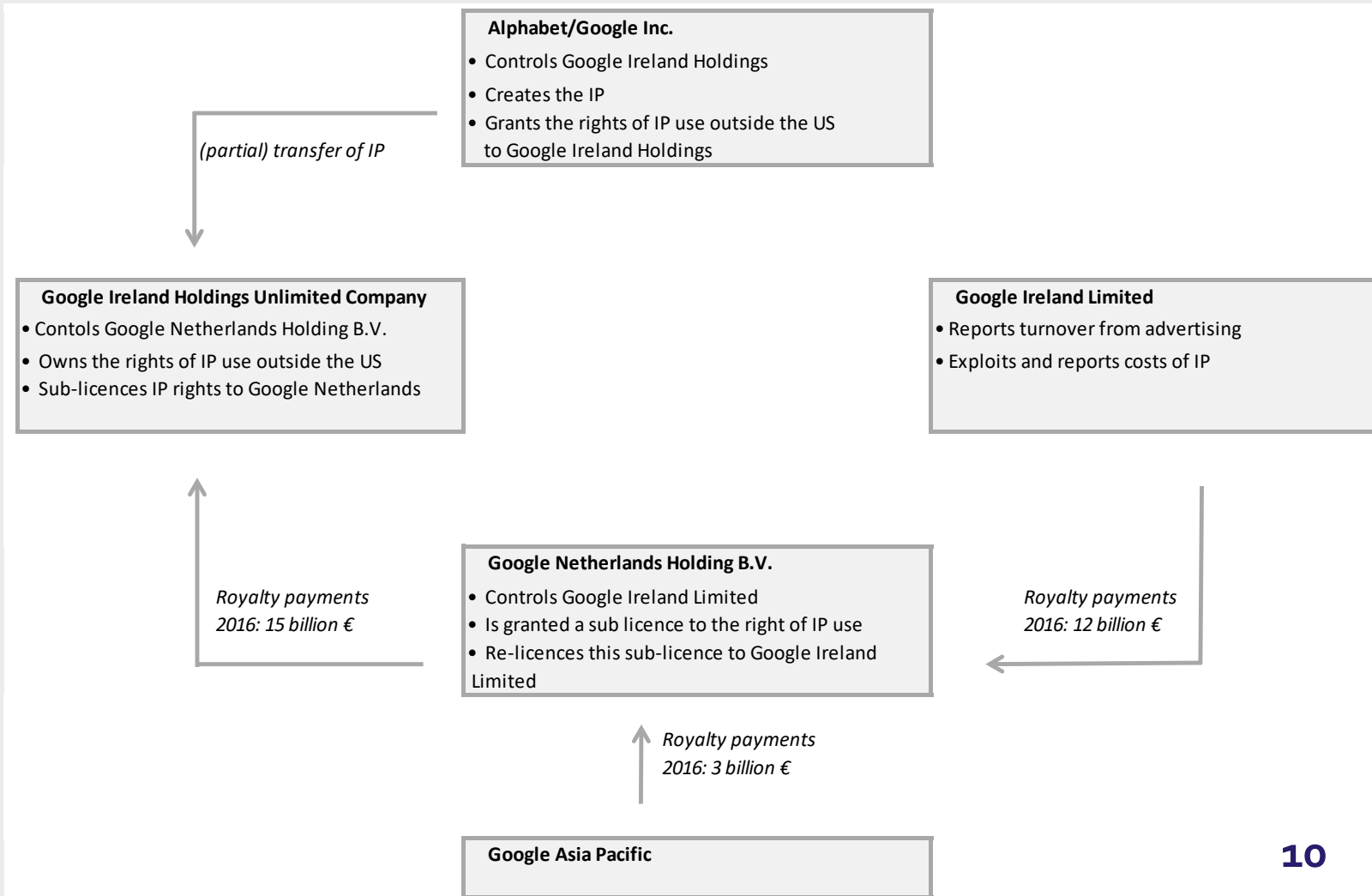
## 3. IP driven tax planning

Main elements:

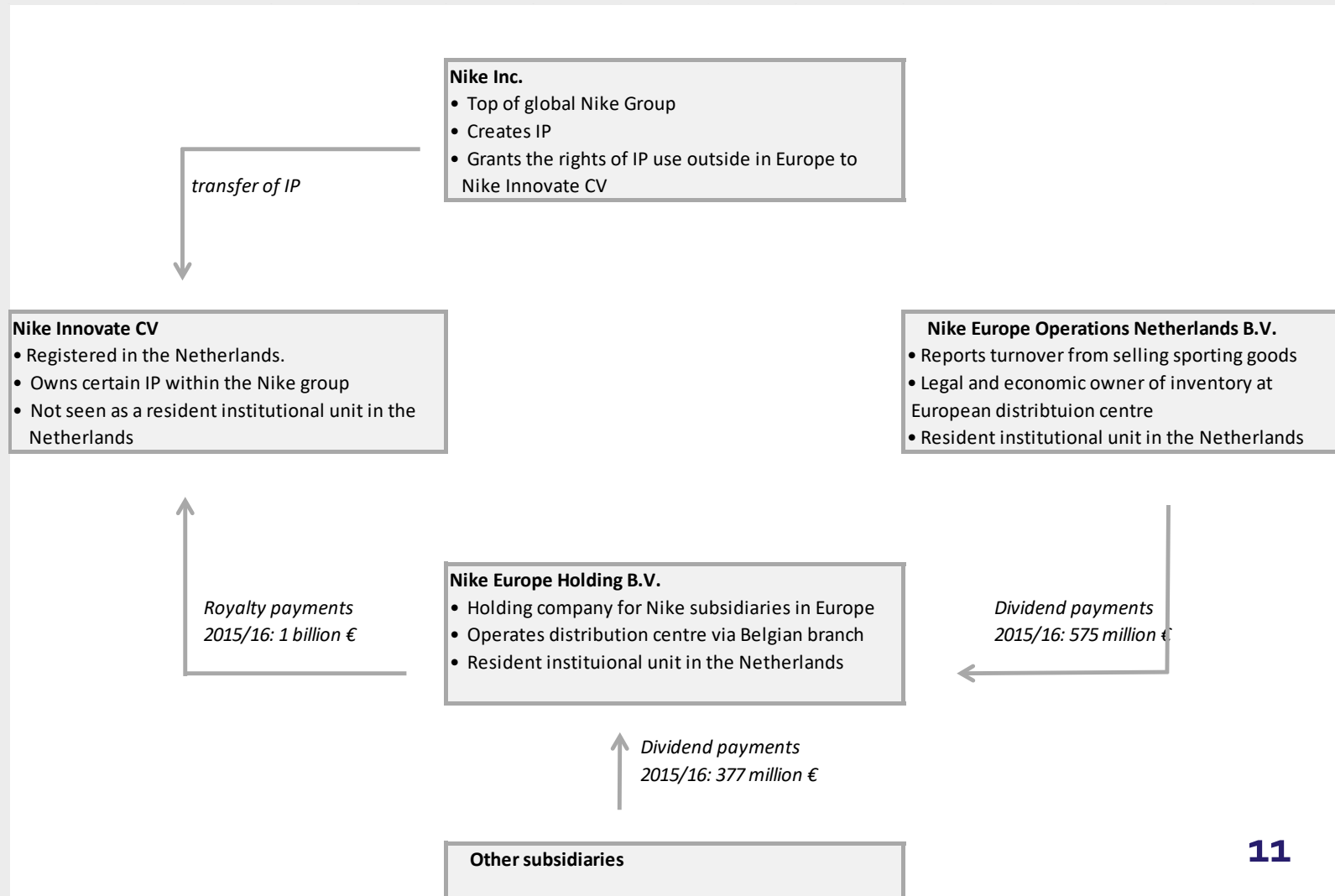
1. R&L (brass-plate) in a low tax jurisdiction, often with a peculiar tax (and residency) status;
2. The R&L is legal IP owner but not in the business of IP creation;
3. Charges IP costs (produced, non-produced) to an affiliate in a high tax jurisdiction. This affiliate will typically report (high) turnover.
4. Both entities have the same parent in yet another jurisdiction.



# Double Irish with a Dutch Sandwich



# De commanditaire vennootschap



# 3. IP driven tax planning

Accounting implications:

- IP assets and transactions may not show up in the accounts of any country
- Royalties on non-produced assets (marketing)
- The Bermuda triangle sink cannot be ignored, neither the Dutch Polder.



-> Bermuda GDP is 4.9 billion US \$ while the Google R&L income is 14.9 billion €.

# Conclusions and recommendations



# 4. Conclusions

## *Public R&D*

- Knowledge is not an economic asset in itself
  - Exclusive access is key
- SNA went too far in capitalising public (or freely available) R&D

## *R&D in MNEs*

- Current SNA has little understanding for R&D ownership in MNEs
  - Further research is needed

# 4. Conclusions

## *IP and tax planning*

- Role of IP in tax planning -> problematic!
  - Observation and recording on strict national basis is not working
  - Key units within MNEs are not present in source statistics

# 5. Recommendations

## *Public R&D*

1. Refine definition of R&D assets

## *R&D in MNEs*

2. Research assigning R&D ownership to enterprise group or headquarters
3. NSIs must co-operate on recording and share information at enterprise level





# 5. Recommendations

## *Tax planning*

4. NSIs must cooperate and share information
5. Support country-by-country reporting as a means to better source information (BEPS)
6. Consider recording of royalties related to non-produced assets
7. Open up and be honest with users about issues around tax planning