

Meeting of the Group of Experts on National Accounts
May 23-25, 2018, Geneva

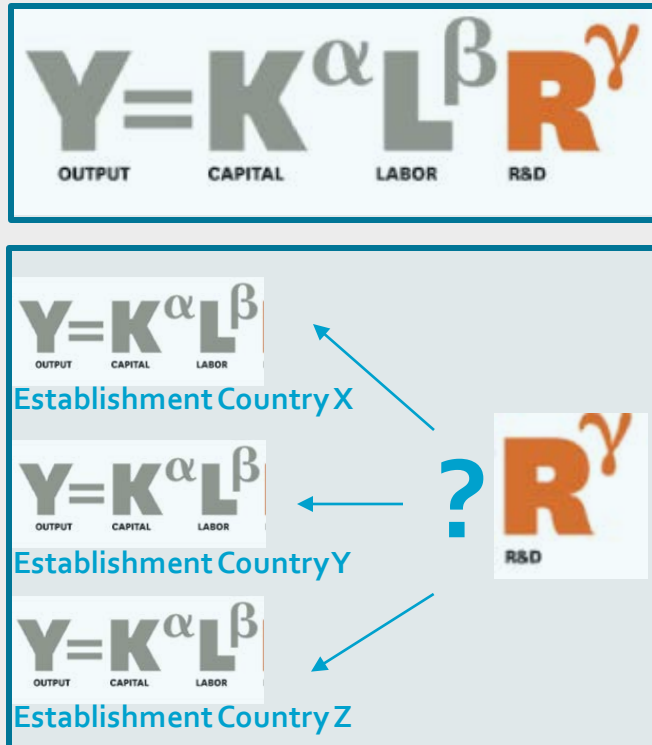
R&D Capitalization: Where did we go wrong?

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Issues covered in the paper

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 chain?
3. Are national accountants able to 'look through' IP driven tax planning arrangements?
4. Conclusions and recommendations.

2. How does R&D enter the MNE?

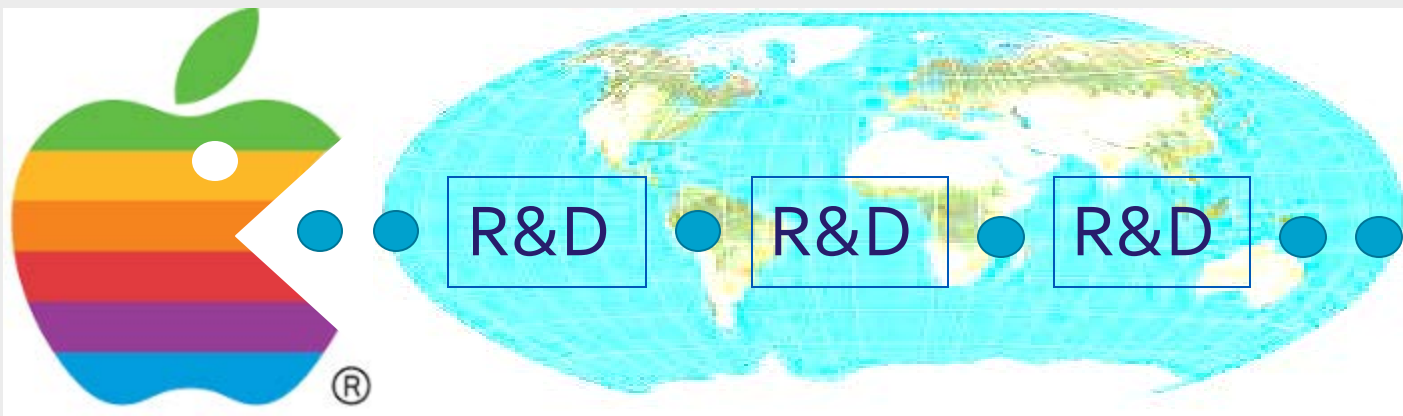


This accounting scheme may still work at the MNE Group level.

- But can it still be applied at establishment level?
- The SNA fixed asset approach: does one size fits all?

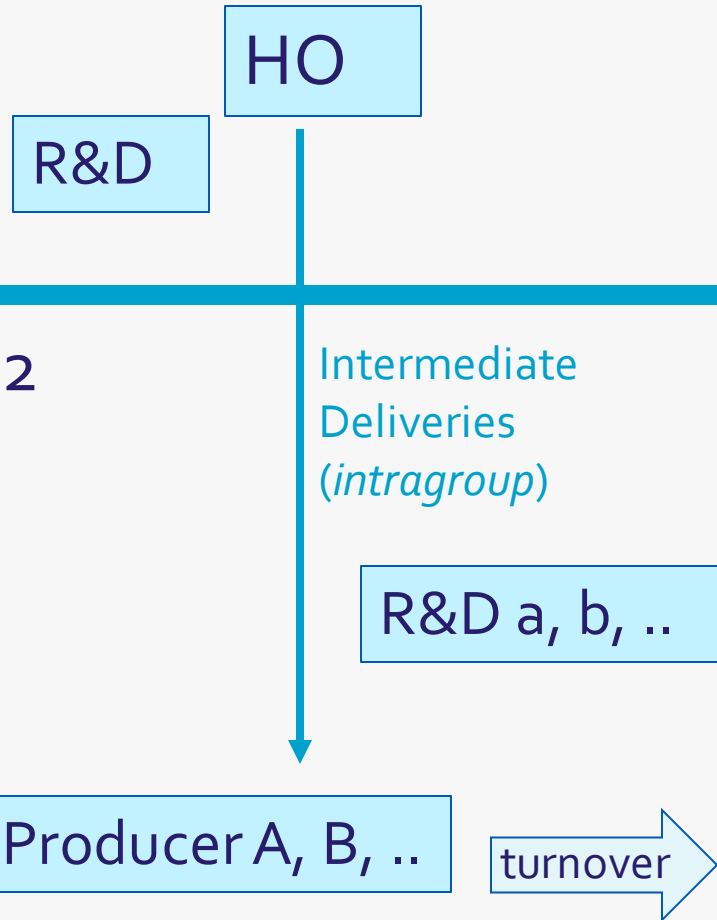
2. How does R&D enter the MNE?

- 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;
- We know where R&D takes place but not necessarily where it is put into production.

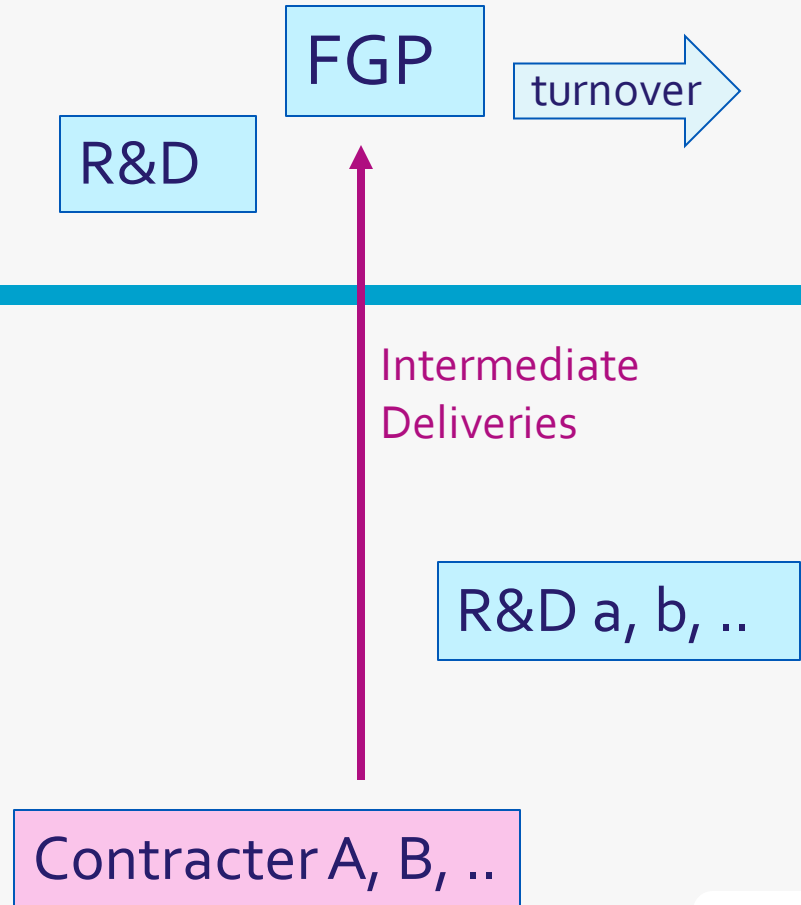


2. How does R&D enter the MNE?

S.1 Vertically integrated producer



Factoryless goods producer



3. IP driven tax planning



Two examples:

1. Google: 'Double Irish Dutch Sandwich'
2. Nike: 'De Commanditaire Vennootschap'

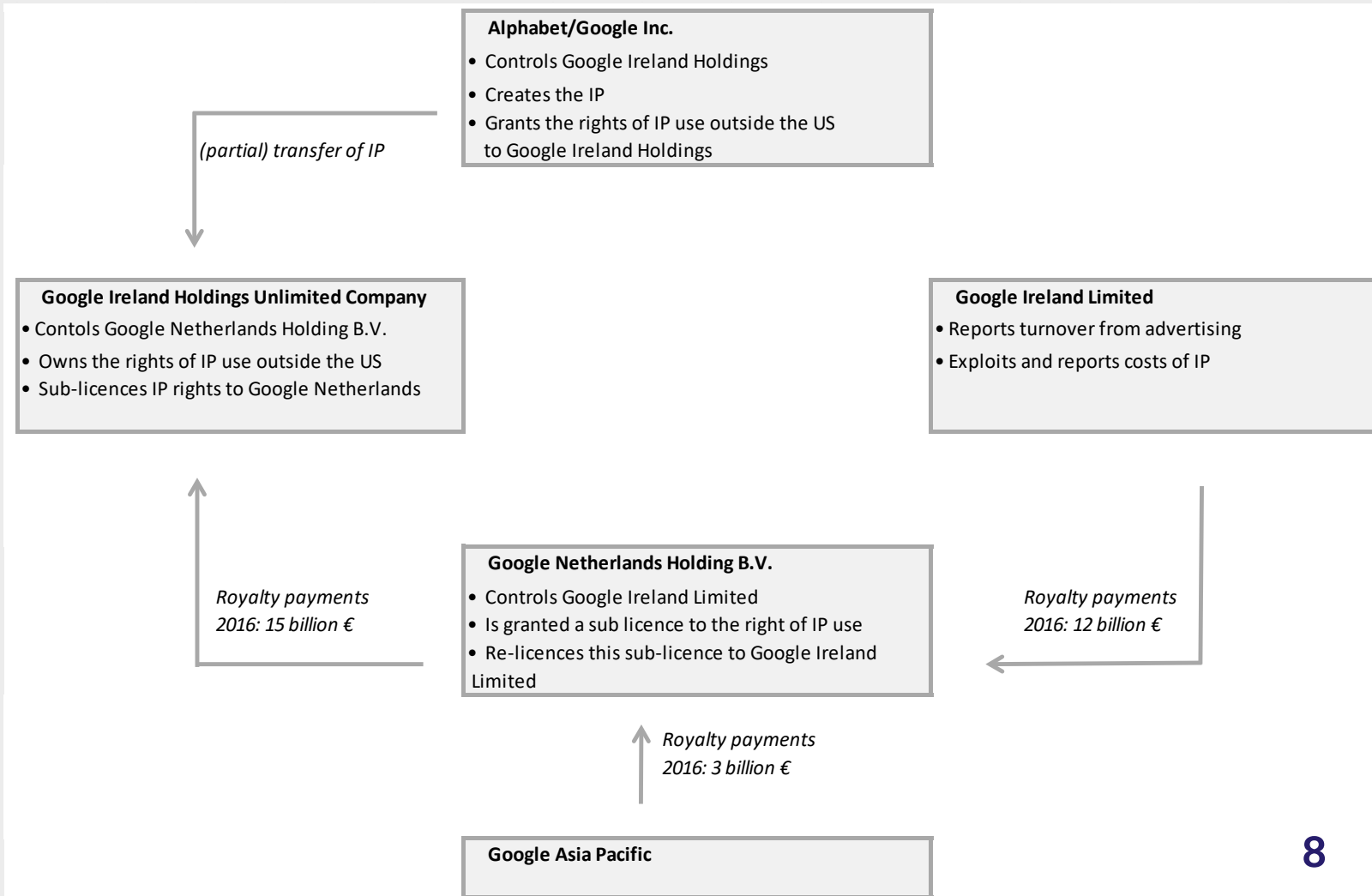
....but the same kind of arrangement.

3. IP driven tax planning

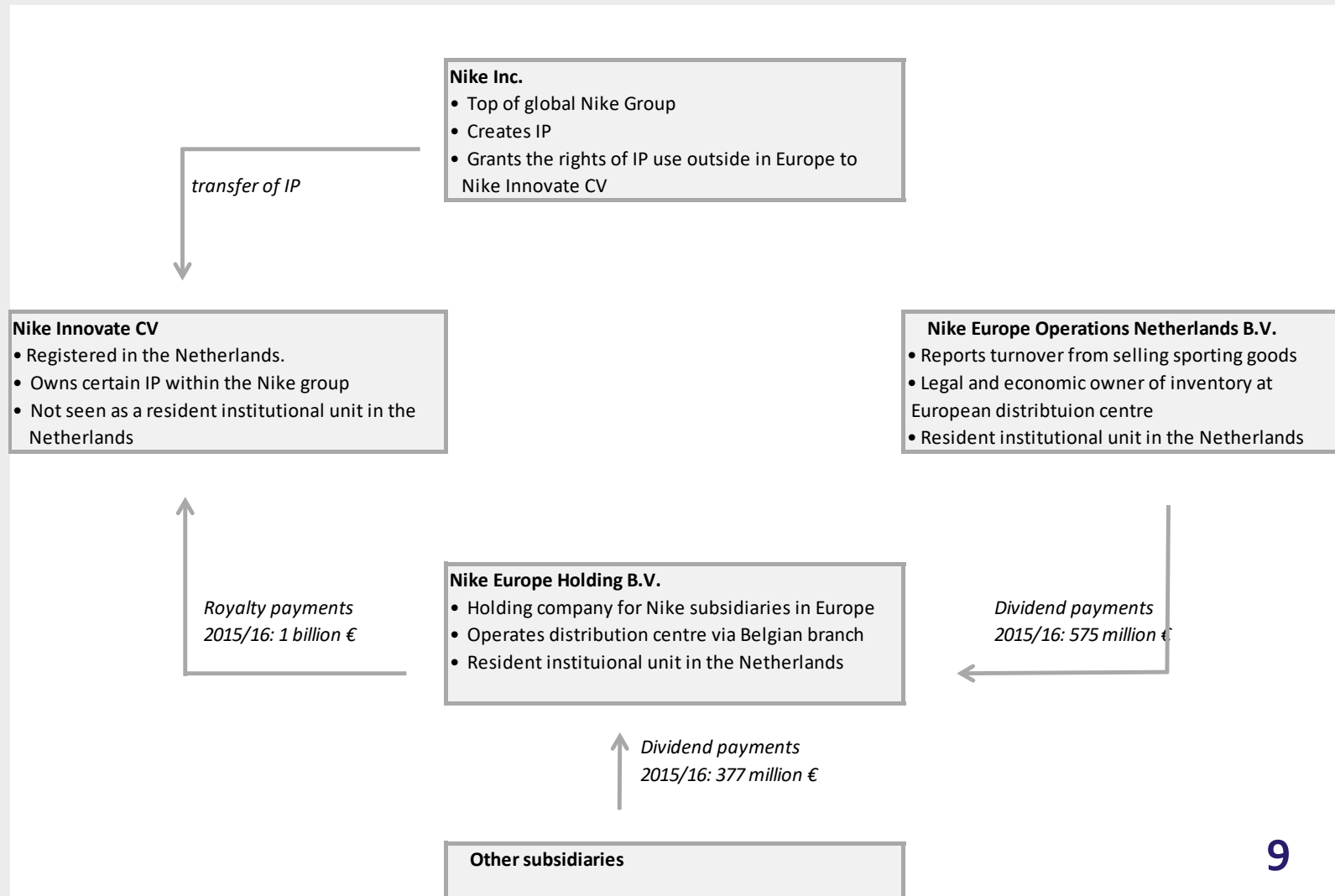
Main elements:

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 €.



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4. Conclusions and recommendations

R&D in MNEs

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

IP and tax planning

- Role of IP in tax planning -> problematic!
 - Observation and recording on strict national basis is not working
 - Key MNE units (R&Ls) are not present in source statistics

4. Conclusions and recommendations

Possible ways forward:

- Research the option of assigning R&D ownership to enterprise group or headquarters
- NSIs must co-operate on recording of MNE's and sharing data.