

Deloitte.

Intangibles valuations: conversations with HMRC

Lyndsay MacGregor

Agenda



UK parameters for valuation



Definitions of value



Valuations and HMRC

UK parameters

Valuations

Cross border transactions

TCGA 1992 – Pre 2002 assets

Exit/entry



s.272
Market Value

Part 8 CTA 2009 – Post FA 2002 chargeable intangible assets and goodwill

On exit



s.845/846
Typically the
higher of:
Market Value
and Arm's
Length
Provision

On entry



s.845/846
Typically
Market Value,
unless Arm's
Length
Provision is
higher and is
paid

Valuations

Cross border transactions

What are the differences?



Valuation illustration - where ownership and substance differ

Transfer of a management agreement to provide management services to a fund...



Substance

Arm's length provision

- Follows economic substance: 'De-risked model'
- Transferee to receive a return for regulatory services only
- Only circa 10% of cash flows will flow to LuxCo



LuxCo P&L	2018	2019	2020
TP return	£2m	£2.1m	£2.2m

- Present value of future cash flows
- Relative bargaining powers of both parties
- Options realistically available?

ALP: £8-10m



Ownership

Market value

- Generally follows ownership
- Best price that could be fetched in the open market
- Price that the purchaser would pay to "stand in the shoes" of the vendor



Holder of asset	2018	2019	2020
Maximum return to holder of asset	£20m	£21m	£22m

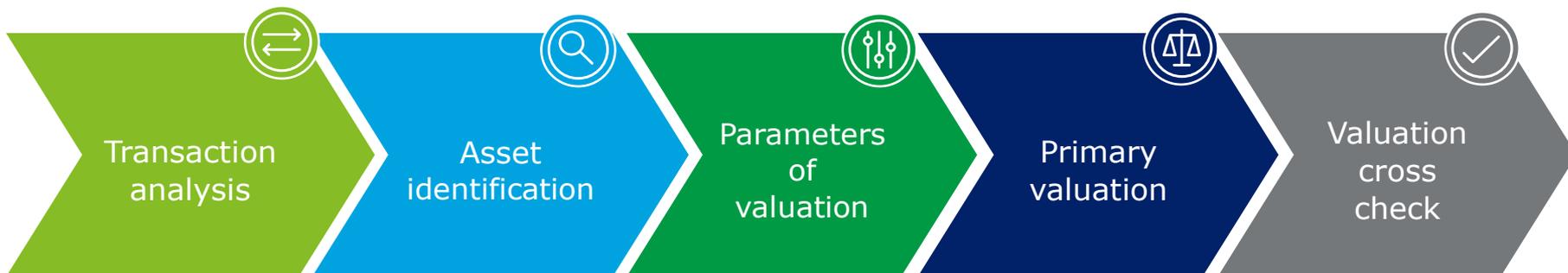
- Hypothetical purchaser could realise a higher return than LuxCo
- Would be willing to pay a price which reflect this
- Market Value far exceeds Arm's Length Provision

Market Value: £100m+?

HMRC – Shares and Assets Valuation

Valuations

Cross border transfers – HMRC’s best practice framework



- Scene setting: what are we doing and why.
- Assess the transaction, including the directionality of any tax considerations.

- Thorough analysis of the precise assets transferring.
- How do the assets contribute to group value?

- Context and setting: what definition(s) of value are in point?
- What are the governing parameters for the valuation (exit and entry)?
- Benchmarking: what positions have to taken previously?

- Selection of primary valuation methodology.
- Functional analysis/DEMPE.
- Comprehensively research each component.





This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

© 2017 Deloitte LLP. All rights reserved.

Designed and produced by The Creative Studio at Deloitte. CSEDC1571