VI.E Cost contributions – Cost sharing example

- Sharing a PA between 2 lawyers
  - Determining the cost
  - Determining the benefits
  - Balancing payments

VI.E Cost contributions – Cost sharing example

Budgeted costs:

Salary	42.000
Office space	4.000
Computer, etc	2.000
Total	48.000
Cost per month	4.000

Budgeted use:

Lawyer 1	40%
Lawyer 2	60%

Monthly contributions

Lawyer 1	1.600
Lawyer 2	2.400

Actual costs:

Salary	45.000
Office space	4.000
Computer, etc	3.000
Total	52.000

Actual use:

Lawyer 1	60%
Lawyer 2	40%

Annual contribution

Lawyer 1	31.200
Lawyer 2	20.800
Total	52.000

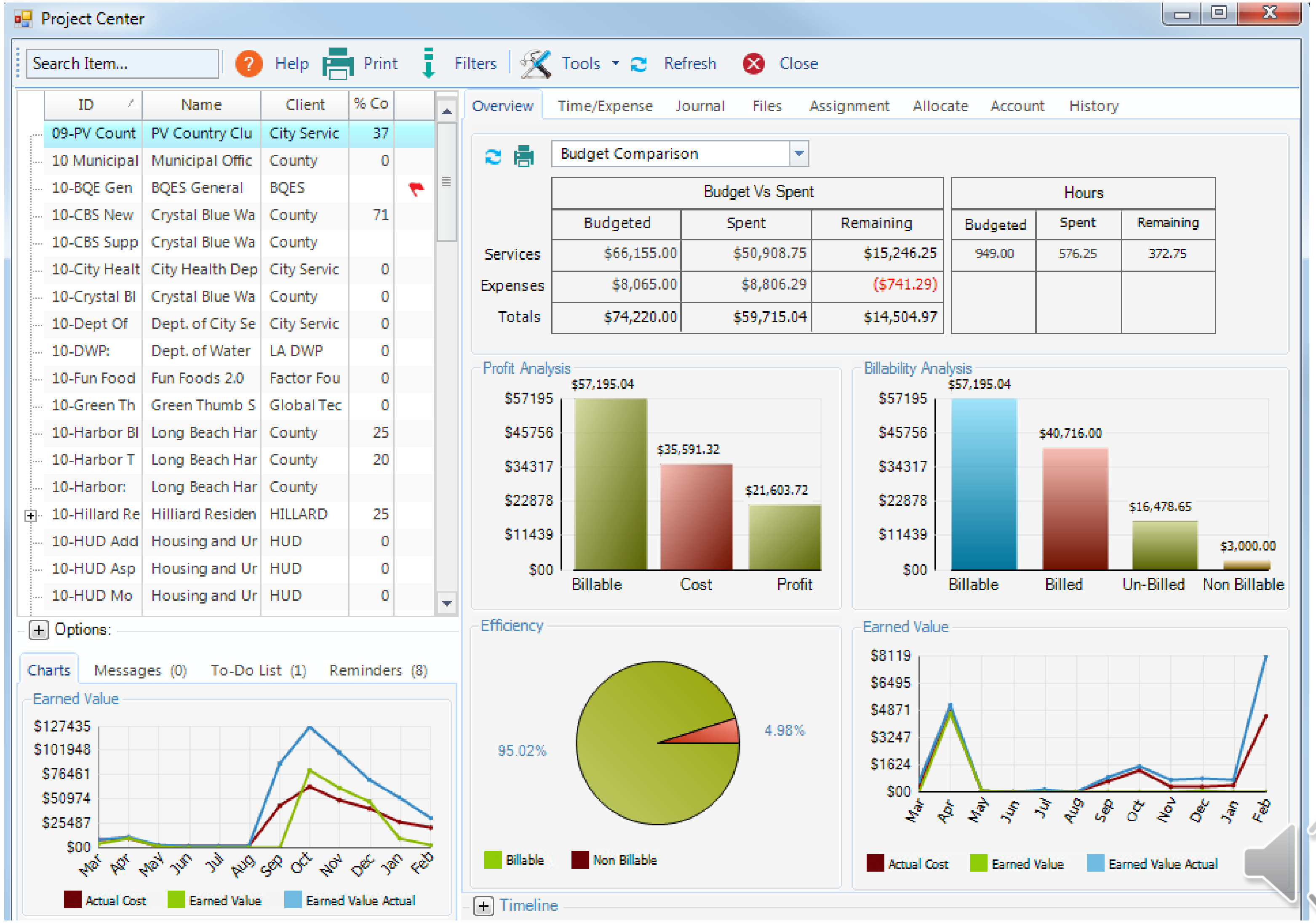
Balancing payment:

Lawyer 1 paid (48.000 x 40%)	19.200
Should have paid (52.000 x 60%)	31.200
Owes Lawyer 2 (31.200 – 19.200)	12.000
Lawyer 2 paid (48.000 x 60%)	28.800
Should have paid (52.000 x 40%)	20.800
Gets from Lawyer 1 (28.800 – 20.800)	8.000

Other 4.000 goes to who covered additional costs.

VI.E Cost contributions – Product development example

- Building an accounting program for own use between 2 companies
  - Development period 3 years
  - Determining the cost
  - Determining the benefits
  - Balancing payments
  - A third participant in year 5
  - Leaving in year 8



VI.E Cost contributions – Product development example

Budgeted costs yr 1 - 3:

All costs	300.000
Cost per year	100.000

Budgeted use yr 4 - >:
(turnover based)

Co 1	30%
Co 2	70%

Annual contributions

Co 1	30.000
Co 2	70.000

Actual use year 4:

Co 1	60%
Co 2	40%

Annual contribution

Deemed life span	10 yrs
"Cost per year"	30.000
Co 1 paid (30%)	9.000
Co 2 paid (70%)	21.000

Balancing payment

Co 1 should pay (60%)	18.000
Owes Co 2 (18-9)	9.000

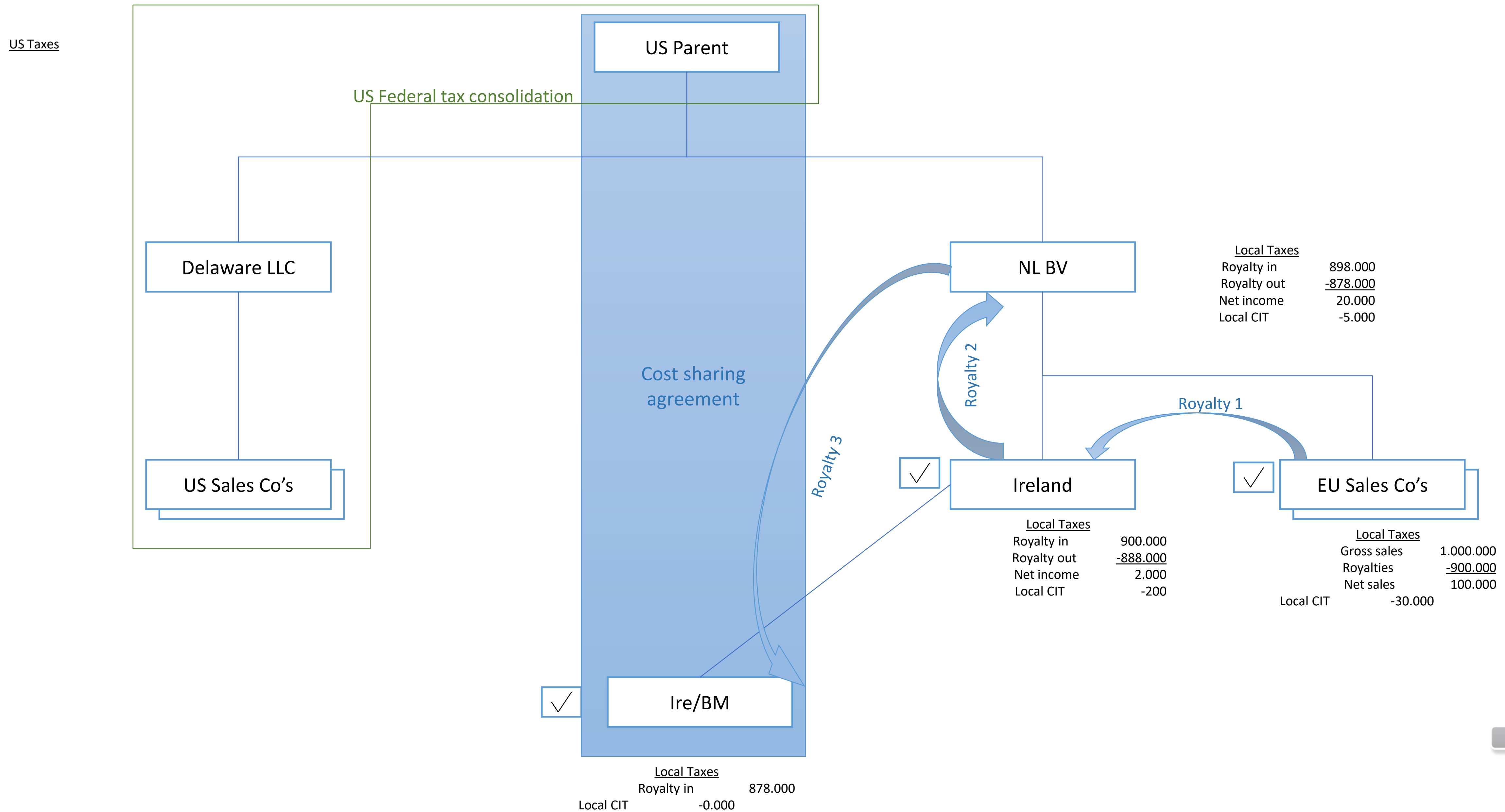
Co 3 joining in year 5:

Remaining value 8 years (300.000 * 8/10 =)	240.000
Anticipated benefit (turnover based)	30%
Buy-in price (240K x 30%)	80.000
Co 1 gets (30%)	24.000
Co 2 gets (70%)	56.000

Co 2 leaving in year 8:

Remaining value 5 years (300.000 * 5/10 =)	150.000
Co 2 share (70/130)	54%
Buy-out price (150K x 54%)	81.000
Co 1 pays (30/(130-70) = 30/60) x 81K)	40.500
Co 3 pays	40.500

V.E.2 Cost contributions – Why CCA's are so popular



VI.E Cost contributions – TPG

TPG § VIII Cost Contribution Agreements

A. Intro

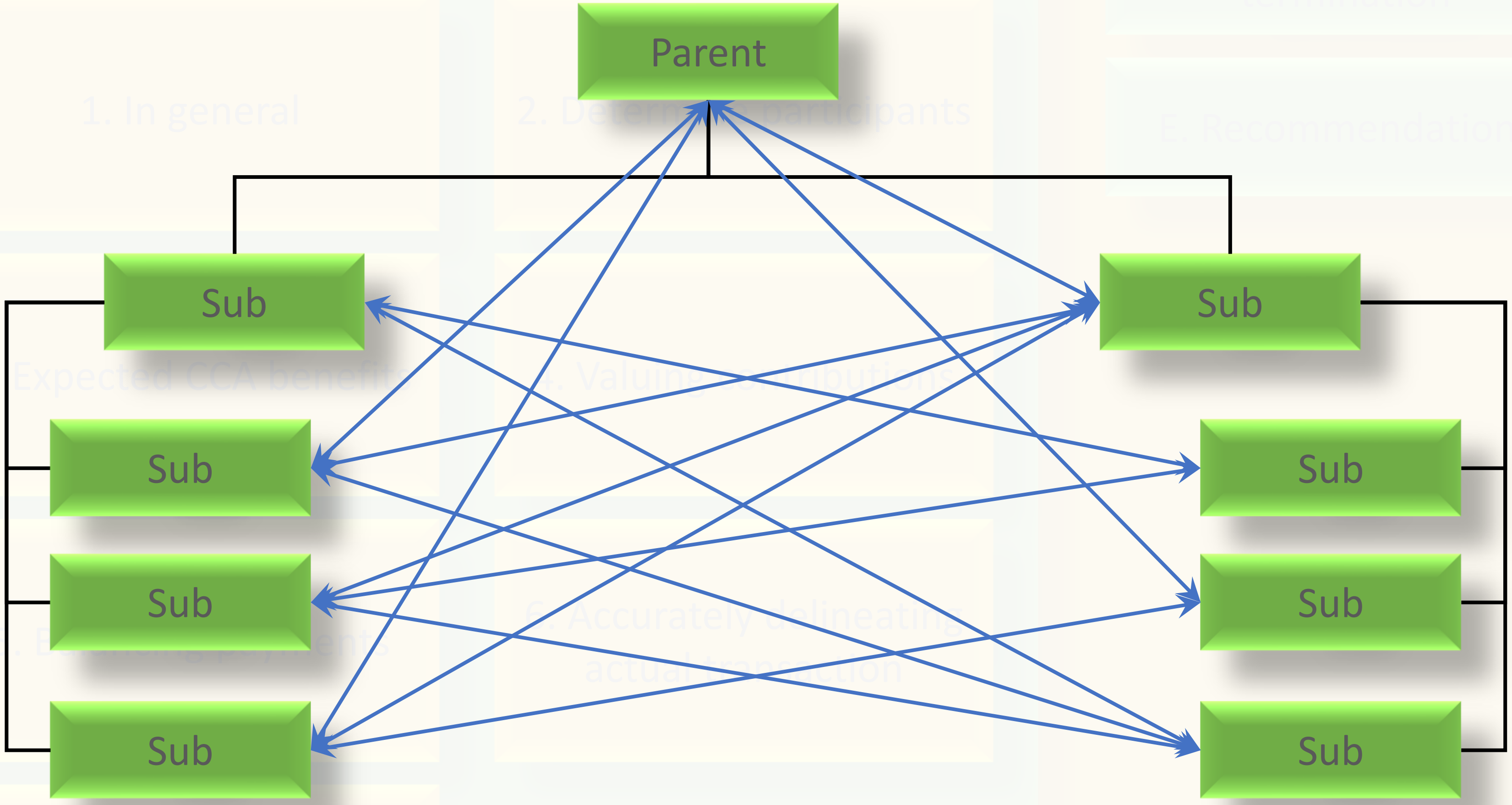
B. CCA's

1. In general

2. Relation to other chapters

3. Types of CCAs

CCAs can replace multiple contracts



VI.E Cost contributions – TPG

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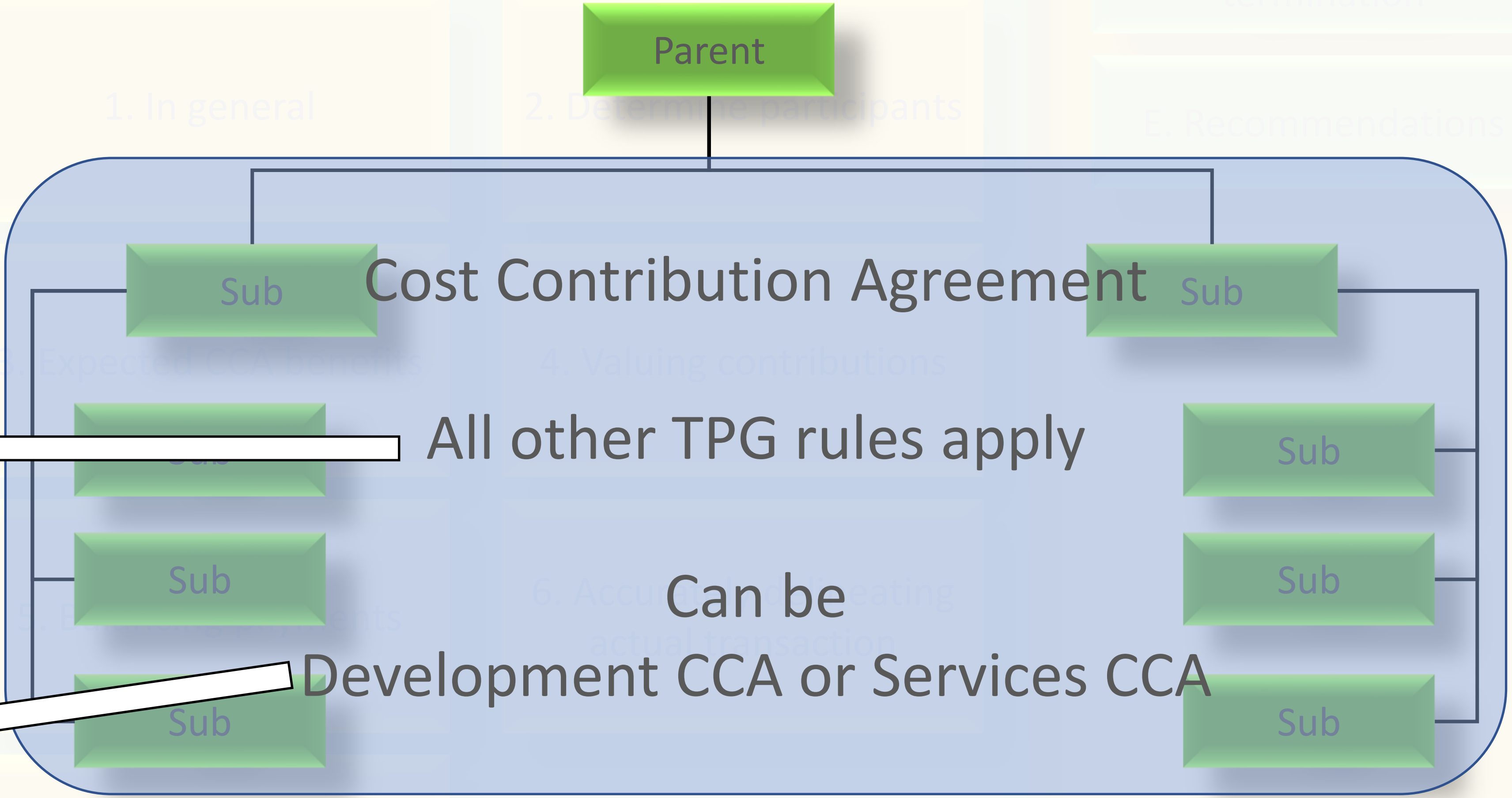

Cost Contribution Agreement

All other TPG rules apply

Can be
Development CCA or Services CCA

VI.E Cost contributions – TPG

TPG § VIII Cost Contribution Agreements

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C. Applying the ALP

1. In general
2. Determine participants
3. Expected CCA benefits
4. Valuing contributions
5. Balancing payments
6. Accurately delineating actual transaction
7. Tax treatment of contributions and balancing payments

D. Entry, withdrawal & termination

E. Recommendations

VI.E Cost contributions – TPG

TPG § VIII Cost Contribution Agreements

C. Applying the ALP

1. In general

Fundamental: part or all of the AL compensation for each participant's input into the CCA is the expected mutual, and proportionate, benefit from the pooling of resources & skills

2. Determine participants

A party providing services to a CCA, without a reasonable expectation of a benefit, is a service provider, not a participant.
Parties must control their CCA risk, to be CCA participants

3. Expected CCA benefits

Use relevant benefit allocation keys per CCA activity
Use projections for development CCAs
Review those projections where needed

4. Valuing contributions

All current and pre-existing contributions must be identified
Cost may not be an accurate allocation key in development CCAs

5. Balancing payments

BP's are made to top up a participant's contribution to the CCA

6. Accurately delineating actual transaction

The accurately delineated transaction may differ from CCA terms

7. Tax treatment of contributions and balancing payments

The character of a contribution depends on the nature of the activity
A BP = an addition to the payor's contribution and a deduction from the recipients' contributions

VI.E Cost contributions – TPG

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VI.E Cost contributions – TPG

D. Entry, withdrawal & termination

E. Recommendations

<u>CCA Conditions</u>

- All participants realistically expect benefits (no contributors only).
- Specify the nature and extent of each participant's interest in the results of the CCA activity.
- No payment other than the CCA contributions, appropriate balancing payments and buy-in payments.
- TPG followed for valuing contributions and benefits.
- CCA may allow for reasonable changes after some period to reflect material changes.
- Provisions for buy-in and buy-out payments and for CCA termination.

VI.E Cost contributions – TPG

<u>Initial CCA Contract</u>

- List of participants.
- List of other associated parties otherwise involved.
- Scope of CCA activities and who is controlling CCA.
- Duration of CCA.
- How contributions and benefits are measured, plus projections made.
- How future benefits will be exploited.
- Form and value of each participants contributions.
- Anticipated allocation of responsibilities and DEMPE FARs.
- Buy-in, buy-out and termination.
- Balancing payment and future adjustment terms.

Information to keep during CCA

- Changes to the CCA and consequences of such changes.
- Comparisson of anticipated benefits vs actual benefits.
- Annual expenditures and form and value of all participants contributions and how valuations were made.

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