

ACC09

Cost-Sharing Arrangements and Fair Value Accounting for Intangible Assets: Evidence from Purchase Price Allocations

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Abstract

This study investigates the potential effect of cost-sharing arrangements on intangible asset valuation. Participants in a cost-sharing arrangement share the cost of further developing an intangible asset and eventually share ownership of the completed intangible, which eliminates the need for intercompany royalty payments. A US multinational firm can avoid the cost of transferring an intangible overseas by contributing it to a cost-sharing arrangement. However, the contributor must receive a “buy-in” payment in exchange for the platform contribution. Since the buy-in payment represents a taxable receipt, cost-sharing arrangements may provide an incentive to understate the value of the intangible. Certain types of intangibles are more likely to be contributed to a cost-sharing arrangement. I predict and find evidence consistent with tax incentives resulting in understated values of technology intangibles relative to marketing intangibles.

Conference Track

Accounting