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Tax Policy Center

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Multinational Enterprises' Profit Allocation Mechanisms in the Era of Digitalization

Research questions

- **Are the current transfer pricing rules and the arm's length principle outdated?**
- **How does the digitalization of the economy influence the debate on profit allocation?**
- **How do the alternate profit allocation mechanisms perform under the selected concepts?**
- **Is tax policy mostly political after all?**

Each mechanism is assessed in view of the following principles

Ease of administration; Economic efficiency; Robustness in preventing abuse; Certainty; Simplicity; Fairness; Ability to Pay; Benefit principle.

Current rules and challenges in applying the arm's length principle

The ALP is a legal fiction
Separate entity approach
Group synergies

Art. 9 OECD Model Convention
Background
Commentary

Practical application
Accurate delineation
TP Methods
Comparability Analysis

Art. 7 OECD MC
Profit attribution to PEs

Intra Group Transactions
Intangibles
Services
Financing
Goods
Commodities

Digitalization and Taxation

Should the digital economy be ring-fenced tax wise?

Evolution of the way of doing business: physical to digital

Outdated concepts: value creation; PE; source principle

Politics and Tax Policy

Cooperation and multilateralism *v.* unilateralism

Optional (soft law) *v.* mandatory (hard law) measures

Penalties and tax compliance

Alternative profit allocation mechanisms

Mechanism in line with the ALP
Modifications to the current ALP

Mechanism not in line with the ALP
Global Formulary Apportionment

Hybrid mechanisms
OECD Pillar 1
UN Art. 12B
Destination-Based Cash Flow Tax
EU Directives
DSTs