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WORKING PAPER

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MEETING DOCUMENT

From: Presidency
To: Working Party on Tax Questions (Digital Taxation)

Subject: Example based impact of the Pillar 1 proposals
- Presentation

Delegations will find attached a powerpoint presentation in view of the meeting of the Working Party on Tax Questions (Direct Taxation - Digital) on 18 July 2019.
Example 1. Impact of the possible new rules on Pillar 1

- **As Is (ALP)**
  - **Group Profit & Tax Allocation**

- **Possible New Allocation of Group Profit & Taxes**
  - **Non-EU Market Area**
    - Contract manufacturer (cost+)
    - Principal functions, centralised IP
    - All residual taxed in EU under current rules

- **EU**
  - **MNE HQ**
  - Principal functions, centralised IP
  - All residual taxed in EU under current rules

- **Non-EU Market Area**
  - Low-risk distributors (x5), sales & marketing (cost+)
  - HQ remote sales in 10 countries

- **New Taxing Rights in the EU and in 3rd Countries**
  - +15%?

- **Customers/users**
Example 2. Impacts on multiple business lines segmentation, decentralized IP & group level profit determination

**BUSINESS LINES a-d**
- **a**: Fully fledged manufacturing, part of the trade IP (a-d)
- **b**: Contract manufacturers cost +
- **c**: Fully fledged manufacturers, part of the trade IP
- **d**: Contract manufacturers cost +

**EU**
- **FFM**: - Fully fledged manufacturing, part of tech IP (a-d)
  - Principal and other HQ functions, part of all IP
  - Part of the residuals

**NON-EU MARKET AREA**
- **FFM**: - Fully fledged manufacturing, part of tech IP (a-d)
  - Fully fledged manufacturers, part of the trade IP
  - Contract manufacturers cost +

**PROFIT LEVELS:**
- **a**: 18 %
- **b**: 10 %
- **c**: 7 %
- **d**: 3 %

**Distributors**
- **LRD’s c+**: - Full risk distributors, part of the marketing IP
  - Low risk distributors cost +
  - Remote sales to 10 countries

**Customers/users**

**NEW TAXING RIGHTS IN THE EU AND IN 3RD COUNTRIES**
Example 3. Impact on data administration & dispute resolution

- HQ functions, centralised IP
- Remote sales
- All of the residual taxed in EU under current rules

NEW TAXING RIGHT IN 200+ JURISDICTIONS