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Boyu Wang

Indiana University Maurer School of Law, boyuwang@indiana.edu

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After the European Commission Ordered Apple to Pay Back Taxes to Ireland: Ireland’s Future in the New Global Tax Environment

BOYU WANG*

ABSTRACT

On August 30, 2016, the European Commission ordered Ireland to collect $14.5 billion plus interest in unpaid taxes between 2003 and 2014 from Apple Inc. The European Union suggested that Ireland made “sweetheart deals” with Apple in exchange for bringing more jobs into the country and concluded that these deals constituted illegal tax benefits, contrary to the European Union’s prohibitions against “state aid.”

Profit shifting and transfer pricing manipulation dominate the analysis of the corporate tax structure in Ireland and its position in the context of global tax policy. This note explains the European Commission’s Apple decision and analyzes how this decision will affect Ireland’s international relations and its law reform, so that Ireland could comply with the European Union and international tax law.

The European Commission’s Apple decision helped the United States, the European Union, and Ireland start a conversation on how to work together to regulate tax evasion on a global scale. I conclude that tax system reforms on an international scale will happen in the future to combat “illegal deals” between multinational companies and specific countries.

* Boyu Wang is a Managing Editor for the Indiana Journal of Global Legal Studies, Volume 25. She is a Juris Doctor Candidate at Indiana University Maurer School of Law and received her Bachelor of Arts degree from China University of Political Science and Law in 2013 and Master of Laws degrees from Montreal University in 2014 and from Indiana University in 2015. Boyu is immensely grateful to her family, friends, and advisors for their unyielding support.

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INTRODUCTION

On August 30, 2016, the European Commission (EC) ordered Ireland to collect $14.5 billion plus interest in unpaid taxes between 2003 and 2014 from Apple Inc. After massive media coverage of the European Commission’s ruling, the public became aware of the corporate tax avoidance issue on a global scale.

The European Commission’s ruling focuses on Apple’s structure in Ireland; the question at the heart of the dispute is whether Apple’s tax agreements constitute “state aid.” Apple based a major international division, Apple Sales International, in an office in Cork, Ireland. In 2011, this division generated more than €16 billion ($22 billion) in pretax profit but paid Ireland less than €10 million in income taxes, which represents an effective tax rate of 0.05 percent and is well below Ireland’s 12.5 percent corporate tax rate. How did Apple manage to pay such a low tax? Apple made two agreements with the Irish Revenue Commissioners in 1991, updated in 2007, concerning profits allocation among Apple’s subsidiaries in Ireland. According to these agreements, only €50 million of the €16 billion pretax profits in 2011 were considered taxable in Ireland. The European Commission concluded that these two tax agreements constituted illegal tax benefits, contrary to the European Union’s prohibitions against “state aid.” The European Union suggested that Ireland made “sweetheart deals” with Apple in exchange for bringing more jobs into the country.

This note explains the European Commission’s Apple decision and analyzes how this decision will affect Ireland’s international relations.
and its law reform, so that Ireland could comply with the European Union and international tax law. Profit shifting and transfer pricing manipulation dominate the analysis of the corporate tax structure in Ireland and its position in the context of global tax policy. Although bilateral and multilateral tax treaties address some issues of the sovereignty of tax policies in the context of an increasingly globalized and cross-jurisdictional economic system, loopholes between the various systems provide corporations with abundant opportunities to minimize their tax liability. Part II of this paper explains how tax evasion became a global issue due to technological developments that enhanced international mobility. The section lays out some of the benefits for choosing Ireland, instead of a corporation’s home country, as the state of incorporation. Part III explains the “double Irish” structure used by some multinational corporations to lower their corporate tax liability, some basic tax rules, and Apple’s structure in Ireland. Part IV introduces the European Commission’s decision by explaining the basis of the European Commission’s ruling and why the European Commission has the authority to regulate tax arrangements between Apple Inc. and the Irish Government. Specifically, the European Commission ordered Apple and its law reform, so that Ireland could comply with the European Union and international tax law. Profit shifting and transfer pricing manipulation dominate the analysis of the corporate tax structure in Ireland and its position in the context of global tax policy. Although bilateral and multilateral tax treaties address some issues of the sovereignty of tax policies in the context of an increasingly globalized and cross-jurisdictional economic system, loopholes between the various systems provide corporations with abundant opportunities to minimize their tax liability. Part II of this paper explains how tax evasion became a global issue due to technological developments that enhanced international mobility. The section lays out some of the benefits for choosing Ireland, instead of a corporation’s home country, as the state of incorporation. Part III explains the “double Irish” structure used by some multinational corporations to lower their corporate tax liability, some basic tax rules, and Apple’s structure in Ireland. 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Commission stated that its decision was not based on the general "double Irish" structure or the lower Irish corporate tax rate, but rather, it was about Apple’s "illegal deals" with the Irish government, which allowed Apple to pay virtually nothing on its European business for years. Part V analyzes the European Union’s position in intervening in Apple’s tax arrangements with Ireland and the ramifications of the European Commission’s decision to Ireland. Ireland’s governmental representatives expressed that they were going to support Apple and appeal the decision. This position is not surprising since Ireland would like to maintain its reputation as being tax friendly and keep attracting significant foreign investment. However, with the global awareness of tax evasion problems, especially after the Apple decision, Ireland has to be more cautious when entering into private deals with multinational corporations because the private arrangements could be investigated by the European Commission, which might affect Ireland’s reputation as being tax friendly.

I conclude that tax system reforms on an international scale will happen in the future to combat "illegal deals" between multinational companies and specific countries, like Ireland in Europe. The European Commission’s Apple decision helped the United States, the European Union, and Ireland start a conversation on how to work together to regulate tax evasion on a global scale. The Organization for Economic Cooperation and Development (OECD) also tried to implement projects to combat the global tax evasion problem. While Ireland will have to pay close attention to internationally agreed upon standards established by the OECD, Ireland will try to stay competitive and attractive in the global market by maintaining its lower tax rate and supporting foreign companies in establishing business in Ireland.

AFTER THE EUROPEAN COMMISSION ORDERED APPLE

I. BACKGROUND

A. Global Economy and Scale

According to one theory, "[t]he modern state is based on the assumption that law operates on a single scale, the scale of the state."\(^\text{14}\) "[T]he fixed location of tangible property tend[s] to restrict corporate wealth and identity to fairly defined boundaries."\(^\text{15}\) Thus, for a long time, corporations have primarily been linked to their home countries.\(^\text{16}\) However, with increased mobility of capital, labor, and property, political barriers continued to decline and multinational corporations inevitably began to emerge.\(^\text{17}\)

With the explosion of globalization, global companies tend to take advantages of different countries' political economies, laws, and governments to achieve wealth concentration.\(^\text{18}\) From the tax perspective, multinational companies have a financial incentive to allocate as much profit as possible to low tax jurisdictions by taking advantages of the inconsistencies of the international taxation rules.\(^\text{19}\) This problem is further emphasized in the "case of global technology companies," whose "primary asset and source of income is intellectual property that may be easily shifted to tax-friendly countries."\(^\text{20}\)

B. Benefits for Multinational Corporations to Establish Business in Ireland

Historically, cities became places where people of different origins clustered together on a semi-permanent basis out of mutual interest.\(^\text{21}\) Beginning in the 1980s, the Irish government played an active role in


\(^{16}\) *Id.*

\(^{17}\) *Id.* at 1308.


promoting foreign direct investment (FDI) from large multinational
corporations. Ireland’s economy developed tremendously ever since.

One of the reasons that foreign corporations chose to locate in
Ireland is the 12.5 percent corporate tax rate, which is one of the
lowest corporate tax rate regimes in the world. By comparison, the
United States has a much higher corporate tax rate of 35 percent. This
means that when a company generates $10 million in profit, it needs to
pay $3.5 million U.S. tax if the company were built in the United States,
while it only pays $1.25 million if the factory were built in Ireland. In
addition to the 12.5 percent tax rate, Ireland provides tax subsidies for
research and development and other activities. However, it is

22. Foreign direct investment has long been regarded as a key component in Ireland’s
economic development. Since the late 1950s, the government moved away from import
substitution strategies, protectionism, and foreign ownership restriction to allow nearly
unrestricted access to the Irish economy. Org. for Econ. Co-Operation and Dev. [OECD],
OECD REVIEWS OF FOREIGN DIRECT INVESTMENT: IRELAND, at 7–10 (1994),
https://www.oecd.org/ireland/34383945.pdf; see also Michael Mikiciuk, Foreign Direct
Investment Success in Ireland: Can Poland Duplicate Ireland’s Economic Success Based on
Foreign Direct Investment Policies?, 14 U. MIAMI INT’L & COMP. L. REV. 65, 95 (2006);

23. See Ireland Corporate Tax Rate 1981-2016, TRADING ECON.,
http://www.tradingeconomics.com/ireland/corporate-tax-rate (last updated Oct. 2017);
30, 2017); Conor O’Brien, Is Ireland’s Corporation Tax Regime Fit for Purpose?, IRISH
TIMES (June 11, 2013, 1:00 AM), http://www.irishtimes.com/business/economy/is-ireland-s-
corporation-tax-regime-fit-for-purpose-1.1423602.

24. According to a corporate tax rate table published by KPMG, the tax rate of some
other countries in Europe is as follows: Belgium: 33.99%; France: 33.3%; Germany:
29.72%; Iceland: 20%; Italy: 31.4%; Netherlands: 25%. See CORPORATE TAX RATES TABLE,
supra note 23; Vincent Boland, Dublin Ditches Double Irish to Save Low Tax Regime,
FIN. TIMES (Oct. 14, 2014), https://www.ft.com/content/1f740b46-539b-11e4-929b-00144feab7de.

CENTER (Jan. 20, 2015), http://www.taxpolicycenter.org/sites/default/files/legacy/taxfacts/
content/pdf/corporate_rates.pdf; Anton Aurenius, How the U.S. Corporate Tax Rate
Compares to the Rest of the World, TAX FOUNDATION (Aug. 22, 2016),
http://taxfoundation.org/blog/how-us-corporate-tax-rate-compares-rest-world. Effective as
of December 21, 2017, the United States changed Section 11 of the Internal Revenue Code,
and the new corporate tax rate is twenty-one percent. I.R.C. § 11 (2017). This note only
discusses the effects and implications of the Apple decision in the context of previous tax
structures in the United States and in Europe.

Qualifying R&D expenditure generates a 25% tax credit for offset against corporation tax,
in addition to the tax deduction . . . .” IDA IRELAND, TAXATION IN IRELAND 2016 (2016),
generally asserted that no preferential treatment exists under Ireland’s corporate tax structure.\textsuperscript{27}

Other factors that help a corporation decide whether to establish business in Ireland include the quality and flexibility of the English-speaking workforce, availability of a multilingual labor force, cooperative labor relations, political stability, pro-business government policies and regulators, a transparent judicial system, transportation links, proximity to the United States and Europe, and the drawing power of existing companies operating successfully in Ireland.\textsuperscript{28}

II. THE DOUBLE IRISH PROBLEM AND APPLE’S STRUCTURE IN IRELAND

The setting of prices for the transfer of goods or services from one company to another is called “transfer pricing” and is used to reduce tax liabilities in relatively high-tax countries.\textsuperscript{29} The problem of transfer pricing is that it gives an advantage to a company if it can artificially allocate profits between associate companies in different jurisdictions.\textsuperscript{30} Lenient U.S. transfer pricing rules allow Irish factories to generate excessive profits that should have been taxed in the United States. For example, if a company generates $30 million profits, when it shifts $20 million of the $30 million profit from the United States to Ireland, it reduces its U.S. tax by $7 million.\textsuperscript{31}

\textsuperscript{27} Rashid Raiyan, What the Apple Tax Dispute Means for the EU-US Relationship, MKT. MOGUL (Sept. 6, 2016), http://themarketmogul.com/what-the-apple-tax-dispute-means-for-the-eu-us-relationship/. But there are special deals for certain companies on an individualized basis. O’Brien, supra note 23.

\textsuperscript{28} A survey released by Ernst & Young in 2010 stated that the best way for states to stimulate future European attractiveness is: (1) whether they support small and medium-sized enterprises; (2) whether they support high-tech industries and innovation; and (3) whether they can reduce taxation and increase flexibility. See Jim Stewart, Low Corporate Tax Rates and Economic Development, in ENACTING GLOBALIZATION: MULTIDISCIPLINARY PERSPECTIVES ON INTERNATIONAL INTEGRATION 6–7 (Louis Brennan ed., 2014); BUREAU OF ECON. & BUS. AFF., U.S. DEPT OF ST., 2016 INVESTMENT CLIMATE STATEMENTS: IRELAND (2016), http://www.state.gov/e/eb/rls/othr/ics/2016/eur/254375.htm; Landon Thomas Jr. & Eric Pfanner, Even Before Apple Tax Breaks, Ireland’s Policy Had Its Critics, CNBC (May 22, 2013, 4:59 AM), http://www.cnbc.com/id/100756298.

\textsuperscript{29} DENNIS CAPLAN, MANAGEMENT ACCOUNTING CONCEPTS AND TECHNIQUES, ch. 23 (2010).

\textsuperscript{30} See E.U.’s Apple Ruling Is No Precedent for Future Tax Cases, supra note 8.

A. The Double Irish Structure

The common arrangement in Ireland is a structure called "Double Irish." It is developed by using a twist in Irish law by sending royalty payments for intellectual property from one Irish-registered subsidiary to another that resides in a "tax haven." Apple Inc. used the legal loophole created by the difference between the U.S. and Irish tax laws to determine the basis of taxation, and developed a unique structure that is similar to the double Irish scheme to lower its tax.

The purpose of the structure is to trigger the deferral provisions of the U.S. tax code for profits earned outside the United States. The earnings of foreign corporations will not be taxed in the United States until the foreign corporation repatriates its earnings through the distribution of dividends. This deferral is maintained as long as the profits are retained in the non-U.S. incorporated affiliates and not repatriated to the U.S. parent.


37. Coffey, supra note 35. From the U.S. perspective, the operating subsidiary is disregarded under the check-the-box regime so that the cash flowing into the holding company does not trigger subpart F inclusions to the U.S. parent. Joseph P. Brothers, Featured Perspectives: From the Double Irish to the Bermuda Triangle, TAX ANALYSTS 2014, at 687 (Nov. 24, 2014), http://www.sven-giegold.de/wp-content/uploads/2015/03/From-Doubl-Double-Irish-to-Bermuda-Triangle-2014.pdf. The subpart F rules attempt to prevent deflection of income, either from the United States or from the foreign country in which earned, into another jurisdiction which is a tax haven or which has a preferential tax regime for certain types of income. OFF. OF TAX POLY., DEPT. OF THE TREASURY, THE DEFERRAL OF INCOME EARNED THROUGH U.S. CONTROLLED FOREIGN CORPORATIONS: A
The "double Irish" structure needs at least three companies to work.\textsuperscript{38} The first company is a U.S. company (U.S. Co.), which licenses its intellectual property (IP) to a subsidiary based in Ireland (Irish Co. 1).\textsuperscript{39} Irish Co. 1 then licenses the patent rights to a second Irish company (Irish Co. 2), which receives income from Irish Co. 1, but has to pay royalties and fees to Irish Co. 1.\textsuperscript{40} Thus, Irish Co. 2's taxes are lower because the royalties and fees paid to Irish Co. 1 are deductible expenses. The U.S. company doesn't pay any federal taxes on the income from the Irish companies because the earnings were not made in the United States.\textsuperscript{41} The combined company's global profits are reported in Ireland, regardless of where they are earned.\textsuperscript{42}

\section*{B. Inconsistency of Taxation System in Ireland and in the United States}

There are two major types of taxation systems for taxing international income: the territorial system and the worldwide system.\textsuperscript{43} Under a territorial tax system, only income derived within the country would be taxed,\textsuperscript{44} and most or all foreign income would be exempted.\textsuperscript{45}

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\textsuperscript{40} Wesley, supra note 38.


\textsuperscript{43} See RESTATEMENT (THIRD) OF FOREIGN RELATIONS LAW OF THE UNITED STATES § 411 (1987) (explaining the main ways that people and corporations are subject to tax in the United States).


\textsuperscript{45} See I.R.C. § 861(a) (2016); I.R.C. § 862(a) (2016). To prevent erosion of the tax base, a territorial system could cover income from financial assets held by a foreign
\end{footnotesize}
Under a worldwide system, a corporation is taxed on its worldwide income, regardless of the source of their income.\textsuperscript{46} The United States employs a system that combines both the territorial and the worldwide tax system.\textsuperscript{47} When operations are carried out through a foreign subsidiary, the income generally will not be subject to the U.S. taxation (except when distributed through dividends or other financial alternatives).\textsuperscript{48} Ireland also employs a mix system: Corporations in Ireland are taxed on their income wherever it derives from, like a worldwide tax system;\textsuperscript{49} Ireland will not tax the earnings of a nonresident corporation (except on its Irish source earnings), like a territorial tax system.\textsuperscript{50}

The concept of "resident" is very important under the worldwide system because a corporation will only be taxed when it is a "resident" of that particular country.\textsuperscript{51} While the United States uses the place of incorporation and the principle place of business as the test for corporate residence,\textsuperscript{52} Ireland uses "manage and control" for


\textsuperscript{47} MICHAEL J. GRAETZ, FOUNDATIONS OF INTERNATIONAL INCOME TAXATION 157-62 (2003) (explaining that the United States tax system is referred to by most as a worldwide system, because the United States taxes foreign source income even though it is not quite a pure system).

\textsuperscript{48} See Ault & Bradford, supra note 46, at 1–2.


\textsuperscript{50} ERNST & YOUNG, WORLDWIDE CORPORATE TAX GUIDE 2013, at 589 (2013), http://www.ey.com/Publication/vwLUAssets/EY-worldwide-corporate-tax-guide-2013/$FILE/EY-worldwide-corporate-tax-guide-2013.pdf (noting that only "[a] company resident in Ireland is subject to corporation tax on its worldwide profits" while "[a] company not resident in Ireland is subject to corporation tax if it carries on a trade in Ireland through a branch or agency" and, in that case, tax is assessed only on "trading profits of the branch or agency") (emphasis added).

\textsuperscript{51} Daniel Shaviro, The Rising Tax-Electivity of U.S. Corporate Residence, 64 TAX L. REV. 377, 383 (2011) ("A corporation is a U.S. resident if and only if it is 'created or organized in the United States or under the law of the United States or of any State.").

\textsuperscript{52} 28 U.S.C. § 1332(c)(1) (2017). In Hertz, the Supreme Court developed the nerve center test to determine the citizenship for diversity jurisdiction, which is the place where the corporation has an "office from which its business was directed and controlled," usually the headquarters. Hertz Corp. v. Friend, 559 U.S. 77, 89–90 (2010).
determination of residency. This inconsistency gives rise to the "nowhere residence" problem, which arises when companies do not need to pay U.S. taxes because a subsidiary in Ireland earned the profits, while this same subsidiary claims that it is not managed or controlled in Ireland, so the corporation doesn't need to pay the Irish tax either.

C. Apple's Structure in Ireland

Beginning in the late 1980s, Apple started to create subsidiaries in Ireland. Apple's companies incorporated in Ireland are represented in the chart below.


Among the companies on the chart, Apple Inc. is incorporated in the United States and all other companies are incorporated in Ireland. In compliance with the U.S. transfer pricing rules, Apple Inc. entered into a Research and Development Cost Sharing Agreement with its

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54. See DeAngelis, supra note 33.
55. See Wesley, supra note 38.
57. A cost sharing agreement is an agreement between companies of one group to share costs and benefits of developing intangible assets; it is a form of a cost contribution arrangement described in Chapter VIII of the OECD Guidelines. Letter from European Commission to the Republic of Ireland, supra note 1, at 8 n.13; Cost Sharing Agreements: An Effective Tax Planning Tool, VALUATION RES. CORP. (Sept. 2008).
subsidiaries, Apple Operations Europe (AOE) and Apple Sales International (ASI), who are also parties to this agreement. According to the agreement, Apple, AOE, and ASI share research and development costs and risks for developing certain Apple products as well as the ownership of the IP rights to Apple goods sold offshore. Thus, the Irish subsidiaries were allowed to receive all of the profits from exploiting Apple Inc.’s IP rights abroad without paying U.S. taxes. For sales of Apple products, ASI signs a contract with an independent third-party manufacturer in China to assemble the Apple products and then resells the products to Apple Distribution International for sales in Europe, the Middle East, Africa, and India (and to Apple Singapore for sales in Asia and the Pacific region). In the end, about 90 percent of Apple’s foreign profits are earned by Irish subsidiaries. Apple levied a big part of the profits earned elsewhere in Europe to account for IP and used it to reduce the Irish tax on its earnings from Europe. Unlike most other multinational corporations that use the double Irish structure, Apple did not put its IP used in Europe and other non-U.S. markets in separate companies. Instead, ASI was split

http://www.valuationresearch.com/sites/default/files/kb/4_CostSharing.pdf. The bigger advantage was that the arrangement allowed Apple to send royalties on patents developed in California to Ireland. The transfer was internal, and simply moved funds from one part of the company to a subsidiary overseas. Duhigg & Kocieniewski, supra note 39.

58. Letter from European Commission to the Republic of Ireland, supra note 1, at 8 n.13.


60. Miraslov, supra note 34. Joseph Stiglitz, an economist from Columbia University, made the following comments: “The [U.S.] tax law right now says we can keep that in Ireland or we can bring it back . . . we’re not going to bring it back until there’s a fair rate. There’s no debate about it. Is that legal to do or not legal to do? It is legal to do. It is the current tax law. It’s not a matter of being patriotic or not patriotic. It doesn’t go that the more you pay, the more patriotic you are.” Hennigan, supra note 31.


64. Id.
into an Irish branch and an offshore head office. All strategic decisions taken by ASI, including in relation to the IP, are taken outside Ireland. This allows for the profits derived on the IP rights held by the Irish subsidiaries to be transferred to the offshore head office. Thus, the profits are subject to virtually no tax burden pursuant to the offshore island’s tax laws. ASI is able to claim that it is managed and controlled outside of Ireland and thus, was not a tax resident in Ireland. At the same time, the United States will not treat the holding companies established under the laws of Ireland as their residents because for U.S. tax purposes, residency is determined by the “place of incorporation” doctrine. This results in a nowhere resident entity, and earnings of the Irish holding companies that are a non-Irish source will be untaxed.

D. Apple’s “Special Arrangements” With Ireland

Apple entered into two agreements with the Revenue Commissioners that allowed Apple to allocate profits between the Irish branch and the headquarters of ASI. These arrangements were the center of the European Commission’s decision.

One of the advance transfer pricing arrangements between Apple and Ireland is for Apple Operations Europe (AOE). In 1991, Apple and the Irish Revenue agreed that the basis for determining its net profit would be calculated as 65 percent of operating expenses up to an annual amount of sixty to seventy million dollars and 20 percent of operating expenses in excess of sixty to seventy million dollars. Operating expenses included in the formula were all operating expenses incurred by AOE’s Irish branch, including depreciation, but excluding materials for resale and cost-share for intangibles charged from Apple-affiliated companies. In 2007, a revised approach for remunerating the Irish branch of AOE was agreed which was based on a 10 to 20 percent

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65. See id.; see also Doron Narotzki, Corporate Social Responsibility and Taxation: The Next Step of the Evolution, 16 HOUS. BUS. & TAX L.J. 167, 189 (2016).
66. See generally Statement of Sen. Carl Levin, supra note 61 (discussing strategic decisions to evade tax liability).
67. See id.
68. The Apple Operations International (AOI) has no physical presence and has not had any employees for thirty-three years. It has two directors and one officer. Most of the AOI board meetings were held in Cupertino rather than Cork. Hickey, supra note 59; see also Statement of Sen. Carl Levin, supra note 61; Narotzki, supra note 65, at 189.
69. ERNST & YOUNG, supra note 50, at 1421.
70. This was subject to the provision that if the overall profit from the Irish operations was less than the figure resulting from this formula, that lower figure would be used for determining net profits.
71. Letter from European Commission to the Republic of Ireland, supra note 1, at 29.
margin on branch operating costs, excluding costs not attributable to the Irish branch, and an IP return of 1 to 9 percent of branch turnover with respect to the accumulated manufacturing process technology of the Irish branch.

As for ASI, Apple and the Irish government agreed in 1991 that the net profit attributable to the ASI branch would be calculated as 12.5 percent of all branch operating costs, excluding material for resale. A modified basis was agreed in 2007 with an eight to eighteen percent margin on branch operating costs, excluding costs not attributable to the Irish branch. 72

III. THE EUROPEAN COMMISSION’S DECISION

Tax agreements between governments and companies are certainly not unique to Ireland and Apple. 73 For many years, Competition Commissioner Margrethe Vestager 74 analyzed and criticized “sweetheart deals” between specific European Union (EU) countries and multinational corporations. 75 On June 11, 2014, EU regulators opened a formal investigation into corporate tax regimes in Ireland, Luxembourg, and the Netherlands. This investigation was prompted by concerns that several major multinational corporations—Apple, Amazon, Google, and Starbucks—were receiving beneficial tax deals greater than what is allowed under EU law. 76 Vestager argued that it is a competition issue because smaller companies suffer when corporations like Apple get special treatment. 77

A. Why Agreements Between Apple and the Irish Government are Problematic and Why the European Union has the Authority to Regulate Ireland’s Tax Decisions

Given the multinational nature of the corporate income tax problem, it is not surprising that the search for a solution has taken place on a multinational level. Although no treaty specifically provides the EU

72. Id.
73. See Taylor, supra note 41.
75. See David Meyer, Here’s What You Need to Know About Apple’s $14.5 Billion EU Tax Bill, FORTUNE (Aug. 30, 2016), http://fortune.com/2016/08/30/apple-tax-ireland-ruling/; see also Loomis, supra note 8; Drucker, supra note 10; Fairless, supra note 8; Bowers, supra note 8.
76. See DeAngelis, supra note 33, at 1377.
77. See Meyer, supra note 75.
with the authority to interfere with individual member states’ domestic corporate tax schemes, a variety of directives have been advanced “to minimize corporate tax factors as an obstacle to doing business in the Single Market.”\textsuperscript{78} The goals and tasks of the European Commission (EC) are aimed at the dynamic integration of member states. Since “the dynamics [were] built into the integration process, the EC has [had] potentially comprehensive jurisdiction over all areas of economic, social, and cultural activities within the EC territory.”\textsuperscript{79} Specifically, article 107(1) of the Treaty on the Functioning of the European Union (TFEU) forbids “aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favoring certain undertakings or the production of certain goods.”\textsuperscript{80}

According to the TFEU, the European Court of Justice (ECJ) prohibits providing domestic individuals and products with more favorable tax treatment than foreign individuals and taxpayers,\textsuperscript{81} and the EC\textsuperscript{82} may at any time, following a complaint or on its own initiative, examine possible unlawful aid.\textsuperscript{83}

\textsuperscript{78} Alistair Craig, EU Law and British Tax: Which Comes First? 11 (2013); see also Steven A. Bank, Anglo-American Corporate Taxation 241 (2011).


\textsuperscript{80} TFEU, supra note 79, art. 107(1); see also Richard Lylal, Transfer Pricing Rules and State Aid, 38 Fordham Int’l L.J. 1017, 1027 (2015). If France taxed companies in the north less than those in the south, that is generally state aid in the EU’s view. It is the same with trying to get a German company to move to Denmark by abating property taxes for a new headquarters. Bobkoff, supra note 74.

\textsuperscript{81} This same principle was applied in the EU’s so-called “Parent/Subsidiary Directive,” which focused on outlawing the double taxation of dividends paid by a subsidiary of one-member state to its parent company located in another member state. See Kummer, supra note 12.

\textsuperscript{82} The European Commission is EU’s executive arm and not a tax authority. See Bobkoff, supra note 74. The European Commission’s job is to maintain fairness between the EU member states. Id.; see also Directorate-General for International Cooperation and Development: Main Missions of DEVCO Directorates & Units, Dec. 22, 2015, http://ec.europa.eu/europeaid/sites/devco/files/mission-statement-december-2015_en.pdf.

\textsuperscript{83} TFEU, supra note 79, art. 108(3) (requiring Member States to notify non-exempted State aid measures, including in the form of tax measures, to the Commission before their implementation, and to await the Commission’s approval before implementing such measures. If either of those obligations is not fulfilled, the State aid measure is considered to be unlawful.); see also Jay Modrall & Dominic Stuttaford, Tax Rulings on Transfer
B. The Essence of the European Commission’s Decision

The EC said its Apple decision was not about Ireland’s tax rate, but about Apple’s special deal with Ireland under which it paid far less than Ireland’s statutory rate on EU sales income. The two advanced pricing agreements between Apple and the Irish Revenue Commissioners were obtained in 1991 and 2007. These agreements allowed Apple to allocate profits between the Irish branch and its headquarters all within one company. However, to avoid the advantage brought by the “transfer pricing,” an “arm’s length principle was internationally agreed upon, setting commercial conditions for the allocation of profit. The arm’s length principle applies not only to


84. EC lacks the legal authority to challenge Ireland’s corporate rate, and the national governments are responsible for raising taxes and setting tax rates. Taxation, EUROPEAN UNION, https://europa.eu/european-union/topics/taxation_en (last visited Nov. 1, 2017).

85. See Thomas Jr. & Pfanner, supra note 28 (“[A] special corporate tax rate of only 2 percent that Senate investigators say Apple worked out with Irish tax authorities”); see also Jenni Ryall, A Deep Dive into Apple’s ‘Sweetheart Deal’ with Ireland, MASHABLE (Aug. 30, 2016), http://mashable.com/2016/08/30/apple-sweetheart-deal-ireland/#i8HbxA5XDEqm.


transactions between separate companies within the same corporate group, but also to transactions between a company and its permanent establishments.\textsuperscript{88} The EU is worried that if the method of taxation for intra-group transfers does not comply with the arm's length principle, it could provide a selective advantage to the company concerned.\textsuperscript{89}

In Apple's case, the EC's view is that Apple's arrangement with Ireland was artificial and conferred a selective benefit to Apple,\textsuperscript{90} and the advanced price fixing agreements (APAs) constitute "state aid" that is incompatible with Article 107(1) of the TFEU.\textsuperscript{91} The EC argued that Apple's head office in Ireland exists only on paper and was created for the sole purpose of allowing Apple to pay low taxes in Ireland in exchange for Apple's agreement to invest in the country and to employ a

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\textsuperscript{88} After the European Commission Ordered Apple, supra note 64, at 6–10.

\textsuperscript{89} See Statement of Sen. Carl Levin, supra note 61, at 6–10.


\textsuperscript{91} See Taylor, supra note 63. The Government of Ireland has calculated Apple's taxable income in such a way as to produce an effective rate in the low single digits. The rate has varied from year to year, but an estimation revealed tax rate ranging between 1% in 2003 to 0.005% in 2014. See Lee Sheppard, The EU Case Against Apple's Irish Tax Deal, Forbes (Sep. 5, 2016, 7:02 PM), http://www.forbes.com/sites/leesheppard/2016/09/05/the-eu-case-against-apples-irish-tax-deal/#1cc7c2f355a0; European Commission Press Release IP/16/2923, State Aid: Ireland Gave Illegal Tax Benefits to Apple Worth up to €13 billion (Aug. 30, 2016), http://europa.eu/rapid/press-release_IP-16-2923_en.htm.

\textsuperscript{91} See TFEU, supra note 79, art. 107(1); Negative Decision for Apple and for Ireland to be Appealed, DELOITTE, http://www2.deloitte.com/ie/en/pages/tax/articles/negative-decision-for-apple.html (last visited Nov. 1, 2017).

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OECD]. The authoritative statement of the arm's length principle is found in paragraph 1 of Article 9 of the OECD Model Tax Convention:

\begin{itemize}
  \item [(a)] an enterprise of a Contracting State participates directly or indirectly in the management, control or capital of an enterprise of the other Contracting State, or
  \item [(b)] the same persons participate directly or indirectly in the management, control or capital of an enterprise of a Contracting State and an enterprise of the other Contracting State, and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly.
\end{itemize}
certain number of people there. Moreover, the EC noted that the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations set certain requirements for the choice of the appropriate transfer pricing method to comply with the arm's length principle. The fact that the methods used in APAs resulted from negotiation rather than a transfer pricing methodology reinforces the idea that the outcome price of the agreed method was not negotiated at arm's length.

The Irish government, however, has repeatedly insisted that tax benefits available to Apple were not exclusive, and the law was "applied fully." Irish Finance Minister Michael Noonan said at the European Parliament, "The government fundamentally disagrees with the European Commission's analysis and the decision left the government no choice but to take an appeal to the European courts."

IV. AFTER THE DECISION

Greg Clark, a Professor of Economics, identified five key features that manifest over time in cities that develop roles beyond domestic markets. The key features are: (1) cross-border trade through connectivity; (2) diverse and entrepreneurial populations; (3) innovation and influence over systems of exchange; (4) the discovery of new markets, products, and practices; and (5) geopolitical opportunity. After the European Commission's decision, Apple announced its desire to appeal the decision, and Ireland expressed its intention to join

93. The OECD Transfer Pricing Guidelines provides five such methods to approximate an arm's length pricing of transactions and profit allocation between companies of the same corporate group: (i) the comparable uncontrolled price method; (ii) the cost-plus method; (iii) the resale minus method; (iv) the transactional net margin method; and (v) the transactional profit split method. Multinational corporations retain the freedom to apply methods not described in those guidelines to establish transfer prices provided those prices satisfy the arm's length principle. OECD, supra note 87, at 21–53; see also Letter from European Commission to the Republic of Ireland, supra note 1.
95. Apple Tax Case: Why is Ireland Refusing Billions?, supra note 22.
97. GREG CLARK, GLOBAL CITIES 2 (2016).
AFTER THE EUROPEAN COMMISSION ORDERED APPLE

Apple. However, the appeal might take years. At the same time, the decision has already started changing the global tax environment, and Ireland will have to make changes in order to comply with international tax standards and maintain its tax-friendly position to attract foreign investors.

A. History Background: Ireland and European Union’s Relationship

Since Ireland joined the then European Economic Community in 1973, Ireland has enjoyed the benefit of being a member of the European Union (EU) in many aspects. After joining the European Monetary System, Ireland received European funding that has been incorporated into Ireland’s economy. This funding financed infrastructure projects and training, research, industrial, social, and community development programs. Ireland gradually transformed into one of the world’s most open trading partners and became an attractive investment destination.

In late 2010, with the banking and fiscal crises, Ireland agreed to an €85 billion multilateral support package from its European partners. The interest rate on the bailout loan was determined to be 5.8 percent per annum baseline and thereafter variable depending both upon the timing of the withdrawals from the bailout fund as well as upon the prevailing market conditions. To comply with a required condition of the bailout program, Ireland needs to take domestic measures to manage Ireland’s budget deficit. Irish policy makers set forth a plan to cut public expenditures by €10 billion and increase tax receipts by €5 billion over a four-year period.

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98. Vincent Boland, Ireland to Appeal Against EU’s Apple Ruling, FIN. TIMES (Sept. 2, 2016), https://www.ft.com/content/2b8adff6-711f-11e6-a0c9-1365ce54b926.
101. Ireland in the EU, supra note 99.
104. Id.
B. EU’s Desire to Reset the Balance of Power on Tax Policy in Europe

Transnational financial managers and entrepreneurs have learned to make the most of “both the revolution in information technology and the new rules instituted in response to neoliberal ideology;” thus, financial flows have expanded even faster than the expansion of global production and trade. The weakness of global governance is usually considered most dangerous in the realm of finance, and the capacity of the global regulatory apparatus continues to fall behind.

European leaders have criticized the current system, saying it amounts to a “beggar thy neighbor” policy that fosters a harmfully competitive environment in Europe and would affect the world's corporate tax system. The EU is estimated to have lost around €1 trillion every year due to tax evasion and avoidance. Under Apple’s special deal with Ireland, Apple paid far less than Ireland's statutory rate on EU sales income; therefore, it did not generate much income tax in the EU countries where its products were sold. The European Commission's Apple decision is “an indicator of [the EC's] desire to contribute, through the application of the State aid rules, to fair tax competition and to the fight against tax base erosion.”

Although it might take years to resolve the appeal, the final decision will reset the balance of power on tax policy in Europe if the European Commission (EC) ultimately prevails. While independent countries “will still be able to set their own tax rates, the Commission will have established itself as a watchful referee of how national rules are

107. Id.
108. This claim is supported by a 2011 report conducted by PricewaterhouseCoopers, which found that the “effective rate of tax on corporate profits in Ireland was 11.9 percent,” a number almost identical to the statutory rate of 12.5 percent. Jim Stewart, Corporation Tax How Important is the 12.5% Corporate Tax Rate in Ireland 3 (Inst. for Int’l Integration Studies, Working Paper No. 375, Sept. 2011).
110. See Thomas Jr. & Pfanner, supra note 28. The first tax ruling by Ireland occurred in 1991 and then was followed by an update in 2007. The deals related to two subsidiaries of Apple that were set up in Ireland: Apple Sales International (ASI) and its parent company Apple Operations Europe (AOE). See Ryall, supra note 85.
111. Lyal, supra note 80, at 1043.
112. Houlder, Barker, & Beesley, supra note 62.
implemented.”  

C. Ireland's Position in Remaining Tax-Friendly to Attract Foreign Investment

Ireland uses its 12.5 percent low corporate tax rate, together with its well-educated, English-speaking, European workforce, to attract foreign multinational corporations and to help Ireland become the single largest location outside the United States for the declared pretax profits of U.S. firms. Irish Finance Minister Michael Noonan has acknowledged that “aggressive tax planning by multinational companies has been criticized by governments across the world and has damaged the reputation of many countries,” including Ireland. Therefore, Michael Noonan believes that it is time for Ireland to take action.

I. Why Ireland Would Like to Support Apple Instead of Collecting Tax

The Irish government and the Irish Revenue have strongly defended that Apple has paid the correct amount of Irish tax and that Ireland applied its taxing rights for Apple “no differently than it has applied them to other taxpayers with branch operations in Ireland.” This position seems odd in light of Ireland's recent history of economic trouble. "The rise of government deficits has also been fed by the increase in tax evasion, partly facilitated by the development of complex accounting, financial, and legal instruments.”

However, Apple has brought massive benefits for Ireland and helped develop the infrastructure in the north side of the city of Cork in Ireland. “A primary role of domestic law . . . is to provide the infrastructure necessary for the exercise of participatory rights by

113. Id.
114. Id.
117. See id.
118. Negative Decision for Apple and for Ireland to be Appealed, supra note 91.
120. SASKIA SASSEN, EXPULSIONS 21 (2014).
citizens." Apple started to set up factories in Ireland in 1980 and now employs nearly 6,000 people across the country. The workers' presence also resulted in the building of new road links and even a regular bus service.

Michael Noonan stated that the country's corporate tax strategy contains three key elements: "rate, reputation and regime." In Noonan's view, "increasing tax reputation is a key factor in winning mobile foreign direct investment." Any increase to the baseline corporation tax would cause potentially harmful consequences, including discouraging multinational companies from doing business in Ireland. Thus, Ireland would like to protect its reputation for being a tax-friendly country, so that it does not lose companies to other tax-friendly jurisdictions.

2. Future Limitations and Obstacles for Ireland to Maintain Status Quo

An unfortunate combination of international and domestic economic factors has led to significant financial deficit issues for Ireland, forcing increased borrowings at sometimes very expensive interest rates. It has placed increasing pressure and international attention on the fiscal

123. Apple's Tax in Ireland, supra note 122.
125. Ireland to Change Company Tax Laws, but 12.5% Corporation Tax Rate to Stay, supra note 12.
126. Id.
129. See id.; see also Kummer, supra note 12, at 293–94.
decisions that are now being made in Ireland.\textsuperscript{131} Irish citizens are aware that €13 billion ($14.5 billion) plus interest is enough to cover the costs of the Irish health service for a year.\textsuperscript{132} People have started wondering why their government refuses the money.\textsuperscript{133} Although the EC has said that Ireland would not be obligated to use back taxes from Apple to pay down its national debt, Ireland could have taken this chance to use the money to pay its national debt.\textsuperscript{134} In the absence of government actions against abusive and unfair business practices, ordinary citizens will feel increasingly disempowered and doubtful about continuing on toward globalization.

Success on appeal for Apple and Ireland might relieve some of the pressure and give national governments more leeway. However, it is very difficult to predict which way a decision would go. The panel of judges comes from all over the EU, so judges are not necessarily inclined to support Ireland. Moreover, because direct taxation is the responsibility of EU member governments, some judges may bristle at the EC's interference with this sovereign function. Apple and other companies have also faced criticism for keeping large reserves of cash overseas. The money is not taxed at home until it is brought back to the parent company in the United States.\textsuperscript{135} Paul Ryan, the Speaker of the U.S. House of Representatives, has urged the United States to reform the tax system so that U.S.-based companies invest in their own country.\textsuperscript{136} But until the appeal is resolved, it threatens to upset U.S.-EU relations, potentially further hampering already difficult talks on a trade deal.\textsuperscript{137}

Apple's tax issue will be an example for any country operating in the "Eurozone."\textsuperscript{138} Although Apple is not going to abandon Ireland regardless of the outcome, the EC decision would make companies think

\begin{itemize}
  \item \textsuperscript{131} Id.; see also Press Association, supra note 92.
  \item \textsuperscript{132} If you are an "ordinarily resident" in Ireland, you can access a range of public health services that are free of charge or subsidized by the Irish government. People without medical cards can still access a wide range of community and hospital health services, either free of charge or at reduced cost. See Health: Introduction to Irish Healthcare System, LIVING IN IRELAND, \url{http://www.livinginireland.ie/en/health} (last visited Nov. 2, 2017); Who Can Access Health Services in Ireland?, HEALTH SERVICE EXECUTIVE, \url{http://www.hse.ie/eng/services/Find_a_Service/eligibility.html} (last visited Nov. 1, 2017).
  \item \textsuperscript{133} See Sheppard, supra note 90.
  \item \textsuperscript{134} Rónán Duffy, EC: Ireland Could Spend Apple Tax Money on Anything It Wants, THEJOURNAL.IE (Aug. 31, 2016, 4:12 PM), \url{http://www.thejournal.ie/commission-apple-money-2957501-Aug2016/}.
  \item \textsuperscript{135} Kanter & Scott, supra note 1.
  \item \textsuperscript{136} Raiyan, supra note 27.
  \item \textsuperscript{137} Houlder, Barker, & Beesley, supra note 62.
  \item \textsuperscript{138} See id.
\end{itemize}
twice before using Ireland. A potentially any company that is deemed to have received a special deal from a European government could end up being targeted in the future. Although not all companies doing business in Europe are bound by the EC’s Apple decision, the EC could conduct separate investigations and address each specific company or country. This might result in more investment in other tax friendly countries like Switzerland or Singapore as opposed to Ireland.

The Organization for Economic Cooperation and Development (the OECD) could set international standards on taxation and develop mandatory codes of conduct for multinationals based in OECD countries, including Ireland. Similar to problems as the environment, security, or some areas of public health, taxation on a global scale cannot be resolved effectively by the way of individual nation-state action alone. State-scale or global-scale rights are often resistant to pressures from higher levels. Research on international economic exchanges has revealed the emergence of a new lex mercatoria, an international legal space in which different types of economic agents operate, whose behavior is regulated by new international rules and contractual relations established by dominant multinational corporations, international banks, or international associations dominated by both. The OECD aims to promote policies that will improve the economic and social well-being of people around the world. Mr. Saint-Amans, the director of the OECD’s Center for Tax Policy and Administration, has expressed concern over the EC’s Apple

139. See Young, supra note 86.
140. See id.
141. A decision may have one or more addressees. For example, when the Commission’s decision imposed a fine on Microsoft for abuse of its dominant market position, the only company directly concerned was Microsoft. European Union Decisions, EUR-Lex (Sept. 16, 2015), http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISearch%3Aa0036; Paul Blake, Amazon, McDonald’s Face EU Tax Audit Similar to Apple’s, ABC NEWS (Aug. 30, 2016), http://abcnews.go.com/International/amazon-mcdonalds-face-eu-tax-audit-similar-apples/story?id=41741475.
142. See Young, supra note 86.
143. Archon Fung, Dara O’Rourke, & Charles Sabel, Can We Put an End to Sweatshops? 67 (Joshua Cohen & Joel Rogers eds., 2001).
146. Boaventura de Sousa Santos, supra note 14, at 287.
decision: "Are we moving to a tax war between two blocs, Americans and Europeans, or are we still in an environment in which we can still build something?"\textsuperscript{148} His view is that "we must ensure we have co-operation among all the countries."\textsuperscript{149} In fact, the OECD has taken steps to combat perceived tax avoidance and is trying to restore global unanimity in an effort to discourage profit shifting.\textsuperscript{150} The OECD has enumerated a fifteen point action plan on Base Erosion and Profit Shifting (BEPS) which includes proposals to develop and implement model treaty provisions to combat tax avoidance schemes and to create rules to limit corporations' ability to transfer intangible property rights to more favorable jurisdictions.\textsuperscript{151} Apple's decision may be seen in a broader context encompassing the BEPS project currently under way in the OECD and the Commission's initiatives aimed at greater tax transparency, including information on tax rulings.\textsuperscript{152} Ireland and the United States already started tax negotiations after the OECD made the BEPS reports to update existing tax agreements between Ireland and the United States.\textsuperscript{153}

**CONCLUSION**

The European Commission's decision will certainly escalate tensions between the EU and the United States, adding further fuel to the U.S. Treasury's concerns of losing domestic tax revenue. It will also cause all European Union member states to take notice of the EC approach, and encourage them to reconsider their domestic tax regimes, over which the EU retains sovereignty, in order to comply with the global economy scale.\textsuperscript{154}

\textsuperscript{148} See Burke-Kennedy, supra note 144.

\textsuperscript{149} Id.

\textsuperscript{150} See Mistler, supra note 19, at 903; see also Lynnley Browning, Profit Shifting, BLOOMBERG (Apr. 27, 2017, 12:38 PM), http://www.bloombergview.com/quicktake/profit-shifting.

\textsuperscript{151} See August, supra note 13.

\textsuperscript{152} See id.


\textsuperscript{154} Negative Decision for Apple and for Ireland to be Appealed, supra note 91. On October 4, 2017, the European Commission took Ireland to the European Court of Justice for failure to collect the back taxes from Apple. See State Aid: Commission Refers Ireland to Court for Failure to Recover Illegal Tax Benefits from Apple Worth up to €13 Billion, EUR. COMM’N (Oct. 4, 2017), http://europa.eu/rapid/press-release_IP-17-3702_en.htm. On October 4, 2017, the European Commission ordered Luxemburg to recover €250 million ($294 million) in corporate income taxes from Amazon and stated that Luxemburg granted
Given the open nature of the Irish economy, the long-established emphasis by the Irish government's encouragement of foreign direct investment, and the importance that is placed on Ireland's international competitiveness, Ireland will try to provide a solution that can maintain Ireland as an attractive location for international investment.155 The low corporate tax rate has been key to Ireland's strengthening recovery from the recession,156 and it is unlikely that Ireland will change this lower corporate tax rate in the future.

Irish Minister for Finance Michael Noonan has stated that the international rules for taxing multinational companies have captured Ireland’s focus. He added that “Ireland wants to be part of the solution to this global tax challenge, not part of the problem.”157 After Apple's case, one of the main policy changes in Ireland might be to fix the mismatch between the U.S. tax regime and Ireland’s, so that companies incorporated in Ireland would not be “stateless” by operating outside of Ireland.158

A case involving such a wealthy multinational corporation like Apple is unlikely to come up again, but there are other multinational corporations at risk.159 With the new OECD project in force, Ireland will have to pay close attention to internationally agreed standards to keep itself competitive and attractive in the global market.

155. Cullen, supra note 130, at 7.
157. Ireland to Change Company Tax Laws, but 12.5% Corporation Tax Rate to Stay, supra note 12.
159. EU authorities are currently investigating Amazon and McDonald's for similar tax deals it deems illegal. Press Association, supra note 92.