

Ortmann, Regina (2015)

Uncertainty in weighting formulary apportionment factors. How does weighting uncertainty impact after-tax income of multinational groups?

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Abstract:

Formulary apportionment is an intensively debated mechanism for allocating tax base within multinational groups. Systems under which the formula is identical in all jurisdictions and systems under which jurisdictions can determine the weights on the formula factors individually can be observed. The latter systems produce uncertainty about the overall tax-liable share of the future group tax base. Counter-intuitively, I identify scenarios under which increased uncertainty leads to higher expected future group income. My results provide helpful insights for firms and policy makers debating the specific design of a formulary apportionment system.