
The case of Apple – [i-Pod, i-Phone...and?]
For example, if Apple Ireland contributed 80% of the costs of developing the iPhone 6, it would get 80% of the profit.
None of the actual work is done by Apple Ireland.
Apple just gives Apple Ireland the money and Apple Ireland pays it back as its contribution to the research costs. Before 1997, such a scheme would not have worked, because the royalties received by Apple Ireland would have triggered a tax in the US under so-called Subpart F. But in 1997 the Clinton Administration adopted a rule called 'check the box'.
Under check the box, Apple Ireland can treat all of its foreign affiliates as if they did not exist as separate entities for US tax purposes and treat the money they paid to Apple Ireland as income earned in Ireland. The result is that for US tax purposes there are no royalties and no US tax triggered by them, because Apple Ireland treats the money as its own sales income.
38