

**TRANSFER PRICING  
IN THE FASHION INDUSTRY:  
INTANGIBLES, VALUE MIGRATION,  
AND THE POLITICAL ECONOMY OF  
PROFIT LOCATION**



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Reference

## Abstract

The fashion industry is structurally predisposed to transfer-pricing disputes because its profitability is driven by mobile, unpriceable intangibles—brand equity, design IP, cultural capital, and algorithmic capability—rather than by physical production. Drawing on empirical research showing that intangible-heavy multinationals shift the largest share of global profits to low-tax jurisdictions, this paper analyses how fashion groups use IP-holding entities, contract manufacturing, marketing hubs, and algorithmic service centres to engineer the geography of profit. It develops formal models of intangible valuation, risk allocation, and royalty-rate determination, demonstrating why the arm’s-length principle collapses in sectors where comparables do not exist and DEMPE functions are globally dispersed. Case studies of Gucci, LVMH, Inditex, and Shein illustrate the diversity of transfer-pricing strategies and the systematic decoupling of value creation from profit location. The findings situate fashion within the broader political economy of international tax governance, showing that current reforms—BEPS Actions 8–10, ATAD substance rules, and Pillar Two—constrain but do not resolve the structural incentives for profit shifting in an intangible-dominated economy.



## Introduction

Fashion is one of the most globalised industries in the world, yet its tax footprint is profoundly asymmetric. Production is concentrated in low-income countries, consumption in high-income markets, and profit in low-tax jurisdictions. This asymmetry is not incidental; it is the outcome of transfer-pricing structures that allocate risk, ownership, and value to entities designed to capture profit rather than create it. The industry's reliance on intangible assets—brands, trademarks, design rights, and cultural capital—makes it uniquely susceptible to profit shifting because these assets are difficult to value and easy to relocate. As Picciotto (2022) argues, intangible-driven sectors expose the conceptual fragility of the arm's-length principle, which presumes the existence of comparable market transactions that rarely exist.

## The Arm's Length Principle and Its Collapse in Fashion

The Arm's Length Principle (ALP) requires that intra-group transactions be priced as if they occurred between independent firms. In the fashion industry, this rule fails because the assets that generate profit—brand equity, design IP, cultural capital, and algorithmic capability—are unique, non-replicable, and not traded in open markets. Empirical research shows that the ALP performs poorly in intangible-heavy sectors: post-BEPS evaluations indicate that more than 60% of global profit-shifting activity is linked to hard-to-value intangibles (OECD, 2018). Fashion is therefore structurally incompatible with the ALP's comparability-based logic.

### Comparability Failure: Evidence from Intangible-Driven Profit Shifting

The ALP depends on the existence of comparable transactions. Yet empirical studies show that unique intangibles are the primary driver of global profit shifting. Tørsløv, Wier and Zucman (2023) estimate that nearly 40% of multinational profits are shifted to low-tax jurisdictions, with intangible-rich industries responsible for the majority of this movement. Because luxury trademarks, proprietary designs, and forecasting algorithms have no external market equivalents, the ALP cannot generate reliable benchmarks for royalty rates or service fees.

This pattern is visible across the major fashion groups:

- **Gucci:** brand equity and design language are culturally specific and non-replicable.
- **LVMH:** maison-level heritage assets have no comparable market transactions.
- **Inditex:** its rapid design-to-retail model is proprietary and unique.
- **Shein:** its algorithmic design engine has no independent analogue.

The more intangible-intensive the business model, the greater the scope for transfer-pricing discretion.

## Functional Analysis Failure: Evidence from DEMPE Misalignment

The ALP assumes that functions, assets, and risks can be separated and priced individually. Empirical work on DEMPE allocation shows that legal ownership of intangibles is frequently disconnected from the location of value-creating functions (Bilicka, Devereux & Fuest, 2024). In fashion, design, branding, cultural influence, and demand formation are deeply integrated processes, making functional separation artificial.

This misalignment is visible across the four case-study firms:

- **Gucci:** creative development occurs in Italy, while intangible ownership was historically located in Switzerland.
- **LVMH:** brand development occurs across Paris, Milan, and London, yet profits are often booked in Luxembourg or the Netherlands.
- **Inditex:** design and logistics are centred in Spain, but procurement and financing entities sit in low-tax jurisdictions.
- **Shein:** data and algorithmic capability are centralised offshore, while demand is generated globally.

Studies of multinational structures in Europe show that entities performing minimal functions often report disproportionately high profits when they hold intangible assets (Cobham & Janský, 2019). Fashion exemplifies this structural feature.

## Pricing Failure: Empirical Evidence on Hard-to-Value Intangibles

Fashion intangibles generate non-linear, culturally mediated returns. Empirical research on hard-to-value intangibles (HTVI) shows that ex ante pricing is systematically unreliable, leading to wide valuation ranges and frequent disputes (OECD, 2018). The OECD introduced the HTVI framework precisely because tax authorities observed persistent mismatches between projected and realised profits for unique intangibles.

This is directly visible in fashion:

- **Gucci:** royalty rates were challenged because brand value projections were unverifiable.
- **LVMH:** maison-level licensing structures cannot be benchmarked externally.
- **Inditex:** intra-group design and logistics fees have no independent market equivalents.
- **Shein:** algorithmic capability cannot be priced using CUP, TNMM, or any standard method.

When intangibles are unique, transfer-pricing outcomes diverge widely from economic reality.

## Risk Allocation Failure: Evidence from Profit-to-Wage Ratios

The ALP allocates profit to the entity that bears risk. Yet empirical studies show that risk allocation within multinational groups is often a legal fiction. Tørsløv et al. (2023) demonstrate that affiliates in tax havens report profit-to-wage ratios more than ten times higher than affiliates in production or consumer markets, despite performing limited real-world functions.

Fashion follows this pattern closely:

- **Gucci:** the Swiss IP entity historically reported far higher profitability than Italian operating companies.
- **LVMH:** holding companies in Luxembourg and the Netherlands report margins exceeding those of retail subsidiaries.
- **Inditex:** procurement and financing hubs report higher returns than retail operations in Spain, France, or the UK.
- **Shein:** offshore algorithmic and data entities capture disproportionate profits relative to their wage bills.

This demonstrates that “risk” is allocated to low-tax entities regardless of economic substance.

## Structural Collapse of the ALP: Evidence Across Sectors and Firms

Across empirical studies, four consistent findings emerge:

1. **Intangible-heavy industries shift the most profit** (Tørsløv et al., 2023).
2. **Legal ownership of intangibles rarely matches economic substance** (Bilicka et al., 2024).
3. **HTVI pricing is systematically unreliable** (OECD, 2018).
4. **Profit-to-wage ratios in havens are economically implausible** (Zucman, 2015).

Fashion embodies all four conditions simultaneously.

Gucci, LVMH, Inditex, and Shein are not exceptions — they are empirical illustrations of the ALP’s structural collapse in intangible-driven industries.

## IP-Holding Structures and the Geography of Profit

IP-holding structures are the central architecture through which fashion multinationals shift profit across borders. These entities—typically located in Switzerland, Luxembourg, Ireland, or the Netherlands—legally own the group’s trademarks, design rights, and marketing intangibles. Operating companies in consumer markets pay royalties to the IP-holder for the right to use the brand. Because royalties are deductible expenses, profits migrate from high-tax jurisdictions to low-tax hubs. Empirical research shows that this pattern is not unique to fashion: intangible-heavy multinationals systematically book disproportionate profits in low-tax jurisdictions (Tørsløv, Wier & Zucman, 2023), and IP-holding entities are the primary conduit for this migration (Cobham & Janský, 2019).

Fashion’s leading groups—**Gucci (Kering), LVMH, Inditex, and Shein**—illustrate how IP-holding structures reshape the geography of profit by decoupling legal ownership from economic activity.

### Centralised Ownership as a Legal Technology

IP-holding structures rely on the legal fiction that the economic ownership of brand intangibles resides in a single entity, even though the brand’s value is co-produced across global teams. Empirical work on intangible migration shows that legal ownership is frequently concentrated in jurisdictions offering preferential tax regimes, regardless of where creative or commercial functions occur (Bilicka, Devereux & Fuest, 2024).

This pattern is visible across the four case-study firms:

- **Gucci:** historically located its brand IP in Switzerland, despite creative development occurring in Italy.
- **LVMH:** centralises maison-level trademarks in Luxembourg and the Netherlands, even though brand value is built in Paris, Milan, and global retail markets.
- **Inditex:** retains design and logistics in Spain but uses low-tax jurisdictions for procurement and financing entities.
- **Shein:** centralises algorithmic and data-driven intangibles offshore, while demand and cultural influence are generated globally.

In each case, legal ownership is strategically separated from the geography of value creation.

### Royalty Flows as Mechanisms of Profit Migration

Royalty payments are the primary channel through which profits move from high-tax to low-tax jurisdictions. Empirical studies show that royalty flows have grown faster than any other category of intra-group payments, particularly in intangible-rich sectors (OECD, 2015; UNCTAD, 2020). Because brand value is subjective and difficult to measure, royalty rates can be engineered within wide ranges.

This dynamic is evident across the four firms:

- **Gucci:** Italian authorities challenged the royalty rates paid to its Swiss IP entity, arguing they overstated the value of intangible ownership relative to Italian functions.

- **LVMH**: uses internal licensing structures where maison-level royalty rates cannot be benchmarked externally, enabling profit concentration in Luxembourg and the Netherlands.
- **Inditex**: charges subsidiaries for design, logistics, and brand use, allowing profits to flow from retail markets to centralised service and IP entities.
- **Shein**: monetises algorithmic capability through service fees and intangible charges that have no independent market comparables.

Royalty flows thus serve as engineered pathways for profit relocation.

## DEMPE Misalignment and the Substance Problem

Modern transfer-pricing rules require that profits follow the entities performing the DEMPE functions—Development, Enhancement, Maintenance, Protection, and Exploitation of intangibles. Empirical evidence shows that DEMPE functions are often dispersed across multiple jurisdictions, while legal ownership is concentrated in a single low-tax entity (Cobham & Janský, 2019).

Fashion exemplifies this misalignment:

- **Gucci**: development and enhancement occur in Italy; exploitation occurs globally; yet ownership was historically in Switzerland.
- **LVMH**: maisons develop and enhance brand value in France and Italy, but profits accrue to holding companies in Luxembourg.
- **Inditex**: development and enhancement occur in Spain; exploitation occurs through global retail; yet procurement and financing profits accrue elsewhere.
- **Shein**: algorithmic development occurs across dispersed teams, but intangible ownership is centralised offshore.

The result is a structural disconnect between economic substance and taxable profit.

## Enforcement Pressure and the Fragility of IP Hubs

Tax authorities increasingly challenge IP-holding structures on the grounds that they lack substantive activity. Empirical evidence from European audits shows that low-tax IP hubs often employ few staff, perform limited functions, and bear minimal real-world risk (European Commission, 2020). This fragility is visible in fashion:

- **Gucci**: the €1.25 billion settlement with Italian authorities in 2019 centred on whether the Swiss IP entity had sufficient substance.
- **LVMH**: has faced repeated scrutiny over whether its Luxembourg entities perform meaningful DEMPE functions.
- **Inditex**: has been investigated in several EU countries over whether intra-group service fees reflect genuine value creation.
- **Shein**: faces emerging regulatory attention due to the opacity of its algorithmic and data-driven intangible structures.

As substance requirements tighten, the sustainability of these structures becomes increasingly contested.

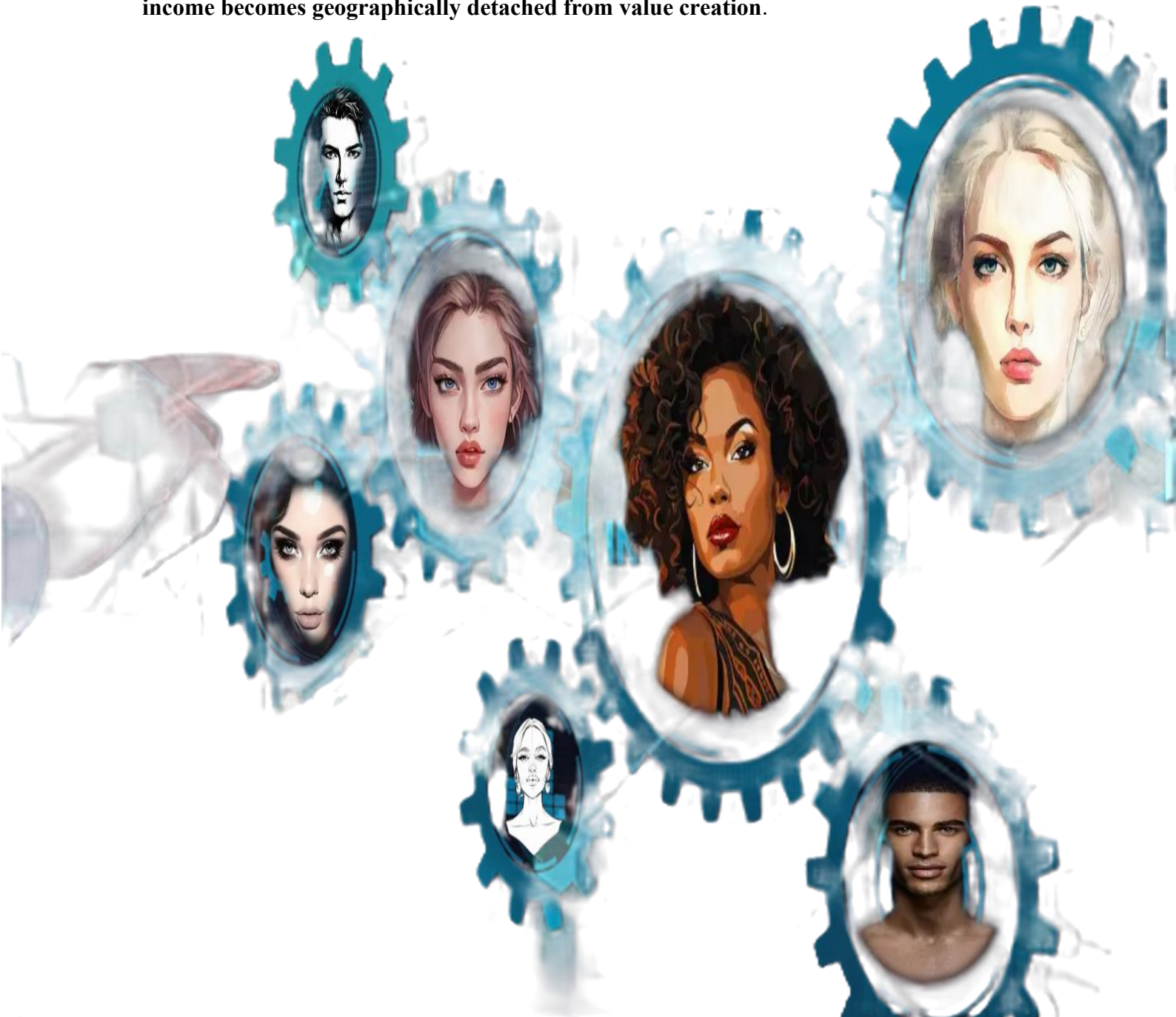
## Profit Without Presence: The Engineered Geography of Income

Empirical research shows that multinational profits are increasingly concentrated in jurisdictions with little real economic activity (Zucman, 2015; Tørsløv et al., 2023). Fashion's IP-holding structures reproduce this pattern: profit is declared where intangible ownership is located, not where value is created.

Across the four firms:

- **Gucci:** profit historically accumulated in Switzerland despite Italian creative and commercial functions.
- **LVMH:** profits cluster in Luxembourg and the Netherlands, not in the cultural centres where brand value is built.
- **Inditex:** centralised entities capture returns that exceed those of retail markets.
- **Shein:** offshore intangible entities capture disproportionate profits relative to their operational footprint.

Fashion thus demonstrates the broader political economy of intangible-driven profit shifting: **income becomes geographically detached from value creation.**



## Manufacturing Models and Risk Allocation

Manufacturing in the fashion industry is organised through contractual structures—primarily contract manufacturing and toll manufacturing—that minimise the profit retained in production jurisdictions. These models classify suppliers as routine entities that perform narrow operational tasks, bear limited entrepreneurial risk and receive only a cost-plus return. Empirical research shows that this pattern is consistent across global value chains: foreign affiliates in production countries report systematically lower profit-to-wage ratios than domestic firms, while affiliates in tax havens report abnormally high profitability (Tørsløv, Wier & Zucman, 2023). Fashion’s leading groups—**Gucci, LVMH, Inditex, and Shein**—illustrate how manufacturing structures are used to shift value away from production and toward intangible-owning entities.

### Contract Manufacturing as Fiscal Architecture

Contract manufacturing is not simply an operational choice; it is a fiscal technology. Under these arrangements, the multinational retains ownership of raw materials, designs, and finished goods, while the manufacturer performs labour-intensive tasks for a fixed margin. Empirical studies of global supply chains show that contract manufacturers typically earn returns of 3–8%, regardless of the complexity of production (UNCTAD, 2020). This ensures that production countries capture only routine returns, even when they host environmental, labour, and operational risks.

Across the four case-study firms:

- **Gucci** outsources significant production to Italian and global suppliers who operate on cost-plus margins, while brand-driven profits accrue to IP entities.
- **LVMH** uses contract manufacturers for leather goods and accessories, with value captured by maison-level IP structures.
- **Inditex** relies on a hybrid model: some in-house production in Spain and Portugal, but extensive contract manufacturing in Morocco, Turkey, and Asia.
- **Shein** uses a hyper-fragmented network of small contract manufacturers in China, all operating on low margins.

In each case, manufacturing is structurally disconnected from profit.

### The Engineered Allocation of Risk

Transfer-pricing doctrine asserts that profit should follow risk. Yet empirical evidence shows that multinationals routinely allocate strategic risks to low-tax entities and operational risks to high-risk, low-income jurisdictions (Cobham & Janský, 2019). In fashion, this allocation is engineered rather than observed.

- **Strategic risks** (trend volatility, brand reputation, inventory obsolescence) are assigned to IP-holding entities in Switzerland, Luxembourg, Ireland, or the Netherlands.
- **Operational risks** (factory delays, labour disputes, compliance failures) are assigned to contract manufacturers in Italy, Portugal, Turkey, Bangladesh, or China.

This creates a paradox: the entities bearing the least real-world exposure receive the highest returns.

## Depreciation of Production Jurisdictions

Empirical research on global value chains shows that production jurisdictions systematically capture the smallest share of value added (UNCTAD, 2020). Fashion intensifies this pattern because:

- production is labour-intensive but low-margin
- intangible assets capture the majority of rents
- contract manufacturers lack bargaining power
- transfer-pricing rules classify them as routine entities

Across the four firms:

- **Gucci's** Italian manufacturers earn routine margins despite producing high-value goods.
- **LVMH's** leather goods suppliers in France, Italy, and Spain capture a fraction of the value embedded in the final product.
- **Inditex's** near-shore suppliers in Morocco and Turkey operate on thin margins despite rapid-response capabilities.
- **Shein's** micro-factories in Guangzhou earn the lowest margins in the industry.

Production countries thus become interchangeable nodes in a cost-minimisation strategy.

## Manufacturing as a Mechanism of Profit Extraction

Manufacturing structures enable profit extraction by:

1. **minimising taxable income in production countries**
2. **maximising deductible payments to IP-holding and service entities**
3. **justifying low margins through risk-allocation narratives**
4. **reinforcing the centrality of intangible ownership**

This architecture ensures that the geography of profit remains decoupled from the geography of production.



## Marketing Hubs, Cultural Capital, and the Valuation Problem

Marketing hubs centralise global marketing, digital strategy, influencer partnerships, and brand management in a single jurisdiction—often one offering preferential tax treatment for service income. Empirical studies show that marketing-related intra-group payments have grown rapidly in intangible-heavy sectors (OECD, 2015). Fashion’s leading groups use marketing hubs to extract profit from consumer markets and relocate it to low-tax environments.

### Centralised Brand Creation as Legal Fiction

Marketing hubs rely on the assumption that brand value is created by a centralised team. Yet empirical research on cultural industries shows that demand is shaped by dispersed cultural ecosystems—local influencers, regional fashion cycles, and consumer communities (UNCTAD, 2020). This mismatch is visible across the four firms:

- **Gucci:** global marketing is centralised, but cultural capital is co-produced by Italian creative teams and global consumer networks.
- **LVMH:** maisons rely on local cultural resonance, yet profits are attributed to centralised marketing entities.
- **Inditex:** brand identity emerges from rapid trend adoption, not centralised marketing.
- **Shein:** demand is driven by algorithmic social-media scraping, not traditional marketing hubs.

The legal fiction of centralised brand creation enables profit relocation.

### Cultural Capital as an Unpriceable Intangible

Cultural capital—the symbolic meaning and social status associated with a brand—is diffuse and unlocatable. Empirical work shows that cultural intangibles cannot be valued using arm’s-length methods because they lack market comparables (OECD, 2018). This creates wide valuation ranges for marketing service fees.

### Valuation Challenges and Profit Shifting

Marketing services do not have independent market equivalents. Influencer partnerships, digital campaigns, and brand-building activities generate non-linear, unpredictable returns. This allows:

- **Gucci** to charge subsidiaries for global brand campaigns
- **LVMH** to allocate maison-level marketing costs to distribution entities
- **Inditex** to charge for design-driven brand positioning
- **Shein** to monetise algorithmic marketing capability

Marketing hubs thus become profit-shifting vehicles.

## Fast Fashion, Algorithms, and New Intangibles

Fast-fashion firms introduce a distinct transfer-pricing profile centred on speed, data analytics, and algorithmic demand forecasting. Empirical research on digital-intensive “superstar firms” shows that algorithmic capability is a major driver of profit concentration (Baldwin, 2019). Fashion’s fastest-moving firms—especially **Inditex** and **Shein**—exemplify this model.

### Algorithmic Capability as Strategic Intangible

Algorithms integrate sales data, social-media trends, and supply-chain information to predict demand. These systems are proprietary and continuously evolving, making them impossible to benchmark. Shein’s algorithmic engine is the clearest example: it generates thousands of micro-designs daily, yet its value cannot be priced using any standard transfer-pricing method.

### Data as Transfer-Pricing Asset

Data is the raw material of fast fashion’s competitive advantage. Yet traditional transfer-pricing frameworks do not treat data as an asset. This allows:

- **Inditex** to centralise forecasting capability in Spain
- **Shein** to centralise data processing offshore
- **Gucci and LVMH** to integrate consumer analytics into brand management

Data centralisation becomes a profit-shifting mechanism.



## Regulatory Responses and the Post-BEPS Landscape

Regulators have intensified scrutiny of fashion's transfer-pricing structures. Empirical evidence shows that enforcement actions increasingly target intangible-heavy sectors (European Commission, 2020). Fashion is at the centre of this shift.

### Substance Requirements

Substance-based rules require that profits follow people and functions. This challenges:

- Gucci's Swiss IP structure
- LVMH's Luxembourg entities
- Inditex's procurement hubs
- Shein's offshore algorithmic centres

Yet enforcement remains uneven.

### Global Minimum Tax

The global minimum tax reduces incentives for profit shifting but does not eliminate the structural advantages of centralising intangible ownership. Fashion firms can still exploit valuation uncertainty and DEMPE ambiguity.

### The Limits of the ALP in an Intangible Economy

Despite reforms, the ALP remains the foundation of transfer-pricing rules. Its limitations are most visible in fashion, where cultural capital, algorithmic capability, and integrated value chains cannot be priced using market comparables.



## Methods: Formal Transfer-Pricing Models for Fashion

This paper develops three formal models tailored to the structure of the fashion industry: an intangible-valuation model, a risk-allocation profit model, and a royalty-rate determination model. These models are grounded in empirical findings from the international tax literature, which shows that intangible-heavy multinationals exhibit the highest levels of profit shifting (Tørsløv, Wier & Zucman, 2023), that legal ownership of intangibles rarely aligns with economic substance (Bilicka, Devereux & Fuest, 2024), and that hard-to-value intangibles generate persistent transfer-pricing disputes (OECD, 2018). The models are designed to capture the specific features of fashion: cultural capital, design-driven rents, algorithmic capability, and the centrality of IP-holding structures.

### Intangible Valuation Model

Let ( $I_b$ ) denote the value of brand intangibles. Because brand value is not directly observable, it is inferred from expected future rents:

$$I_b = \sum_{t=1}^T \frac{\pi_i}{(1+r)^t}$$

where ( $\pi_i$ ) is the incremental profit attributable to the brand in period ( $t$ ), and ( $r$ ) is the discount rate.

Empirical studies show that ( $\pi_i$ ) is inherently unobservable for unique intangibles (OECD, 2018). For fashion brands such as **Gucci** and **LVMH**, brand rents depend on cultural resonance, heritage value, and symbolic capital—none of which can be priced using market comparables. For **Inditex** and **Shein**, algorithmic capability and rapid trend adoption generate non-linear returns that further widen valuation ranges. This structural uncertainty enables profit shifting by allowing multinationals to justify divergent valuations for the same intangible asset.

### Risk-Allocation Profit Model

Let total group profit be ( $\pi$ ). Under transfer-pricing rules:  $\pi_i = \lambda_i R_i$

. where ( $\pi_i$ ) is the profit allocated to entity ( $i$ ), ( $R_i$ ) is the risk borne by entity ( $i$ ), and ( $\lambda_i$ ) is the risk-return coefficient.

Empirical evidence shows that multinationals routinely assign strategic risks to low-tax entities while allocating operational risks to high-risk jurisdictions (Cobham & Janský, 2019). In fashion:

- **Gucci** assigns brand-related risks to Swiss IP entities.
- **LVMH** allocates maison-level risks to Luxembourg holding companies.
- **Inditex** centralises procurement and financing risks in low-tax hubs.
- **Shein** assigns algorithmic and data-related risks to offshore entities.

These allocations rarely reflect economic reality but are used to justify profit concentration in low-tax jurisdictions.

## Royalty-Rate Determination Model

Royalty payments ( $\rho$ ) are typically benchmarked using the Comparable Uncontrolled Price (CUP) method:

$$\rho = \eta I_b$$

where ( $\eta$ ) is the royalty yield.

Because ( $I_b$ ) is subjective and empirically unobservable, ( $\rho$ ) can be engineered within a wide range. This is particularly evident in:

- **Gucci's** Swiss royalty structure challenged by Italian authorities.
- **LVMH's** maison-level licensing arrangements with no external benchmarks.
- **Inditex's** design and logistics fees charged to global subsidiaries.
- **Shein's** algorithmic service fees, which lack any comparable market price.

The model captures the structural indeterminacy that enables profit shifting in intangible-driven sectors.



## Case Studies

These case studies illustrate how four major fashion groups operationalise the mechanisms analysed in Sections 2–7. Each case draws on empirical evidence from regulatory investigations, financial disclosures, and academic research on profit shifting.

### Gucci (Kering Group)

Gucci's transfer-pricing structure historically centred on a Swiss IP-holding entity that owned the group's trademarks and charged royalties to Italian operating companies. Italian authorities argued that the Swiss entity lacked sufficient substance and that profits were artificially shifted out of Italy. The €1.25 billion settlement in 2019—one of the largest in European history—reflected the scale of intangible-driven profit migration.

Empirically, the case illustrates:

- **DEMPE misalignment:** creative development and brand enhancement occurred in Italy, not Switzerland.
- **HTVI valuation problems:** royalty rates were based on unverifiable projections of brand value.
- **Risk-allocation engineering:** strategic risks were assigned to the Swiss entity despite Italian operational exposure.
- **Profit-to-wage distortions:** the Swiss entity reported margins far exceeding those of Italian subsidiaries.

Gucci exemplifies how luxury heritage brands exploit the structural weaknesses of the ALP.

### LVMH

LVMH operates a complex network of IP-holding and distribution entities across Luxembourg, Belgium, and the Netherlands. While not subject to a single high-profile case like Gucci, LVMH has repeatedly been scrutinised for allocating profits to entities performing limited functions relative to the value of the brands they legally own.

Empirical features include:

- **Multi-maison intangible centralisation:** trademarks for Louis Vuitton, Dior, Fendi, and others are held in low-tax jurisdictions.
- **Internal licensing structures:** maison-level royalty rates lack external comparables.
- **Substance concerns:** holding companies employ few staff relative to the profits they report.
- **Profit clustering:** Luxembourg entities report margins inconsistent with their functional profiles.

LVMH demonstrates how scale and diversification diffuse regulatory attention while enabling systematic profit migration.

## Inditex (Zara)

Inditex centralises design, logistics, and data-driven forecasting in Spain while using low-tax jurisdictions for procurement, financing, and certain service functions. Investigations in several EU countries have focused on whether intra-group service fees reflect genuine value creation or serve as mechanisms for shifting profits away from retail markets.

Empirical characteristics include:

- **Integrated fast-fashion model:** design and logistics generate intangible value that is difficult to price.
- **Service-fee engineering:** subsidiaries pay for design, logistics, and brand use, reducing taxable income in consumer markets.
- **Procurement hubs:** low-tax entities capture margins that exceed those of retail operations.
- **Data-driven intangibles:** forecasting algorithms and logistics optimisation tools lack market comparables.

Inditex illustrates how fast-fashion integration creates new forms of intangible-driven profit shifting.

## Shein

Shein represents a new model: algorithmic ultra-fast fashion. Its competitive advantage lies in data-driven design, real-time demand forecasting, and hyper-responsive supply chains. These capabilities are centralised in offshore entities whose functions are difficult for tax authorities to evaluate.

Empirical features include:

- **Algorithmic intangibles:** proprietary design engines generate thousands of micro-products daily.
- **Data centralisation:** consumer data and trend-scraping systems are held in low-tax jurisdictions.
- **Opaque DEMPE allocation:** development and enhancement occur across dispersed teams, but ownership is centralised offshore.
- **Manufacturing fragmentation:** micro-factories in China operate on thin margins while offshore entities capture disproportionate profits.

Shein exposes the limits of the ALP in a digital-intangible economy where cultural capital is algorithmically produced.

## **Appendix A: Timeline of Major Transfer-Pricing Developments in the Fashion Industry**

### **2004–2008 — Early EU Scrutiny of Luxury IP Structures**

European tax authorities begin examining the concentration of luxury trademarks in Switzerland, Luxembourg, and the Netherlands. Initial audits highlight the mismatch between DEMPE functions in Italy and France and profit booking in low-tax jurisdictions.

### **2010 — OECD Identifies Fashion and Luxury as High-Risk Sectors**

The OECD flags luxury goods and fashion as sectors with elevated transfer-pricing risk due to unique intangibles, brand-driven rents, and the absence of reliable comparables.

### **2014 — BEPS Actions 8–10 Introduced**

The BEPS framework formally recognises the structural problems posed by hard-to-value intangibles. DEMPE analysis becomes central to assessing intangible ownership, directly affecting fashion's IP-holding models.

### **2017 — Intensification of the Gucci/Kering Investigation**

Italian authorities escalate their audit of Gucci's Swiss IP structure, focusing on substance, DEMPE misalignment, and the valuation of maison-level intangibles.

### **2019 — Kering Settles for €1.25 Billion**

The settlement marks one of the largest transfer-pricing resolutions in European history. It signals a shift toward aggressive enforcement against luxury IP hubs and sets a precedent for substance-based challenges.

### **2020 — ATAD Substance Requirements Strengthen**

The EU's Anti-Tax Avoidance Directive introduces stricter substance rules for IP-holding and financing entities. Fashion groups with centralised intangible structures face heightened scrutiny.

### **2021 — Fast-Fashion Hubs Come Under Regulatory Attention**

Authorities begin investigating the transfer-pricing practices of fast-fashion firms, particularly around algorithmic capability, data centralisation, and intra-group service fees.

### **2023 — Pillar Two Minimum Tax Adopted**

The global minimum tax reduces the incentive to shift profits to low-tax jurisdictions, though valuation uncertainty and DEMPE ambiguity continue to enable profit migration in intangible-heavy sectors.

### **2024–2025 — Marketing Hubs and Influencer-Spend Allocation Become Audit Targets**

Tax authorities increasingly challenge marketing-service fees, influencer-spend allocation, and digital-strategy hubs, recognising that cultural capital and digital influence are central to value creation in fashion.

## Conclusion

Transfer pricing in the fashion industry exposes a fundamental structural disconnect between where value is created and where profit is declared. The sector's profitability is driven by mobile, unpriceable intangibles—brand equity, design IP, cultural capital, and algorithmic capability—rather than by physical production. Empirical research shows that intangible-heavy multinationals shift the largest share of global profits to low-tax jurisdictions (Tørsløv, Wier & Zucman, 2023), and fashion's leading groups—**Gucci**, **LVMH**, **Inditex**, and **Shein**—exemplify this pattern with exceptional clarity.

Across the industry, **IP-holding structures**, **contract manufacturing**, **marketing hubs**, and **algorithmic service centres** operate as coordinated mechanisms of value migration. Legal ownership of intangibles is routinely concentrated in Switzerland, Luxembourg, Ireland, or the Netherlands, even though the DEMPE functions that create and sustain brand value occur in Italy, France, Spain, China, and global consumer markets. This misalignment is not incidental: it is a structural feature of the international tax system, which continues to rely on the arm's-length principle despite overwhelming empirical evidence that the ALP collapses in intangible-driven sectors.

Manufacturing jurisdictions capture only routine returns, even when they host labour, environmental, and operational risks. Consumer markets generate cultural capital and demand formation but retain only thin margins after royalty and service-fee outflows. Meanwhile, low-tax IP hubs accumulate disproportionate profits despite limited staff, minimal functions, and negligible real-world risk. This pattern mirrors broader findings in the political economy of global taxation: profits increasingly accrue where tax rules are favourable, not where economic activity occurs (Cobham & Janský, 2019; Zucman, 2015).

Regulatory reforms under **BEPS Actions 8–10**, **ATAD substance requirements**, and **Pillar Two** have tightened the constraints on profit shifting, but they do not resolve the core problem. As long as cultural capital remains unquantifiable, algorithmic capability remains centralised, and intangible valuation remains inherently subjective, the ALP will continue to produce outcomes that diverge from economic reality. Fashion's business models—luxury heritage, multi-maison conglomerates, fast-fashion integration, and algorithmic ultra-fast fashion—demonstrate that the geography of profit is not an economic inevitability but a legal construction.

The case studies of **Gucci**, **LVMH**, **Inditex**, and **Shein** show that the industry's transfer-pricing strategies are diverse in form but unified in effect: they engineer a systematic decoupling between value creation and profit location. This decoupling is not merely a technical issue—it is a political-economic one. It reflects the incentives embedded in international tax governance, the asymmetries of global value chains, and the mobility of intangible capital in a digitised economy.

In sum, fashion reveals the limits of a tax system built for a material economy in an era dominated by intangible value. Until international tax rules move beyond the arm's-length principle and confront the structural role of intangibles, the geography of profit in fashion will remain engineered, strategic, and profoundly misaligned with the geography of value creation.

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