



Canada Revenue
Agency

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ADVANCE PRICING ARRANGEMENT

PROGRAM REPORT

2019

Competent Authority Services Division

International and Large Business Directorate
Compliance Programs Branch
Canada Revenue Agency

canada.ca/en/revenue-agency/services/tax/international-non-residents/competent-authority-services

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EXECUTIVE SUMMARY

The Canada Revenue Agency (CRA)'s Advance Pricing Arrangement (APA) program is administered through the CRA's Competent Authority Services Division (CASD), which is part of the International and Large Business Directorate of the Compliance Programs Branch. Canada has a longstanding and successful APA program. Canada is highly respected at the international level for its APA program and is an active participant in working with other jurisdictions to identify possible improvements to the APA process.

The APA program is a service offered by the CRA to assist taxpayers in preventing transfer pricing disputes that could otherwise arise in future tax years. The main objective of the program is to provide increased certainty regarding future transfer pricing issues in a manner consistent with the Income Tax Act and guidance from the CRA and the Organisation for Economic Co-operation and Development (OECD).

A summary of the key findings presented in this year's report is provided below:

- Based on the number of pre-file meetings held with taxpayers in 2019, the CRA had 15 applicants to the program.
- The year 2019 opened with an active case inventory of 71 APAs. 7 new cases were accepted into the program, no cases were withdrawn, and 12 cases were completed. This resulted in a closing inventory of 66 cases for 2019.
- The vast majority of cases (89.4%) since 2015-2016 involve taxpayers seeking an APA on a bilateral or multilateral basis, as opposed to 10.6% of taxpayers seeking an APA on a unilateral basis.
- In 2019, the average time to complete a bilateral APA was 51.1 months. This increased from 2018 as a number of older APAs were closed during the year. In particular, 3 APAs took more than 80 months to complete.
- Cases involving transfers of tangible property made up the largest percentage of APAs in process (47%). Cases involving intangible property represented 27%, intra-group services represented 23% and financing arrangements represented 3%.
- In 2019, the CRA's open APA cases involved taxpayers with operations in more than 15 different industrial sectors.
- The CRA is currently engaged in bilateral or multilateral APA processes involving taxpayers from 16 different jurisdictions: Australia, Chile, China, France, Germany, India, Ireland, Japan, Korea, the Netherlands, New Zealand, Singapore, Sweden, Switzerland, the United Kingdom and the United States.

INTRODUCTION

In line with the OECD's Forum on Tax Administration, one of the overarching goals of the CRA's APA program is to provide taxpayers with an avenue to improve tax certainty.

The key objectives of this report include:

- enhancing awareness of the CRA's APA program;
- notifying taxpayers of changes to the APA program;
- providing an operational status update; and
- identifying issues that may affect the APA program in future years.

Maintaining the approach of previous publications, this year's report continues to emphasize statistical analysis and quantitative data.

In the coming year, the CRA will consider opportunities for improvements to its current APA program. In addition, the CRA plans to update Information Circular 94-4, [International Transfer Pricing: Advance Pricing Arrangements \(APAs\)](#).

BACKGROUND

The APA program is delivered through the CRA's CASD, which is part of the International and Large Business Directorate, in the Compliance Programs Branch.

The program is a service offered by the CRA to assist taxpayers to prevent transfer pricing disputes. The main objective of the program is to provide increased certainty for transfer pricing methodologies to be applied to future intercompany transfer pricing transactions in a manner consistent with the Income Tax Act, as well as CRA and OECD guidance.

The APA process is based on co-operation and transparency. The APA process differs from the CRA's audit process as its focus is on prospective or future tax years rather than tax years that have elapsed. In essence, an APA is an arrangement between a taxpayer and a tax administration that sets out an agreed to transfer pricing methodology, to be used on a prospective basis, for establishing a transfer price which is arm's length for the transactions between related parties. Applying the arm's length principle is generally based on a comparison of the prices, or profit margins, that non-arm's length parties use or obtain, with those of arm's length parties engaged in similar transactions.

An APA process is started by a Canadian taxpayer through contact with the CASD. For more information on the CRA's APA program, see Information Circular 94-4, [International Transfer Pricing: Advance Pricing Arrangements \(APAs\)](#).

APA PROGRAM: 2019

The following section provides an operational overview of the APA program, along with current trends, issues, and changes to the program.

Program applications

A taxpayer interested in obtaining an APA must first send a pre-file package to the Director of the CASD to request an APA pre-file meeting. As much as possible, an APA request-information package should include all the information listed in Appendix I of Information Circular 94-4, [International Transfer Pricing: Advance Pricing Arrangements \(APAs\)](#). The CASD will review the package and will contact the taxpayer to either request more information or, if the information is complete, to schedule a pre-file meeting.

A pre-file meeting, which takes place between a taxpayer and the CRA, provides an opportunity for the taxpayer to learn more about the APA program and for the CRA to get clarification on the taxpayer's business, industry, and most importantly, the requested covered transaction(s). The main objective of the meeting is to explore the suitability of the taxpayer and the proposed covered transaction(s) for the APA program.

After considering the nature of the request, the availability of information, and the taxpayer's willingness to address potential issues identified during or after the pre-file meeting, a decision is made as to whether or not the taxpayer will be accepted into the next stage of the APA process. A taxpayer invited to continue in the process has to prepare a detailed APA submission outlining the specifics of the covered transaction(s), including a detailed transfer pricing analysis and all pertinent information necessary for the CRA to review and complete its own transfer pricing analysis. After the CRA has received and reviewed the taxpayer's APA submission for completeness, a decision is made to accept or reject the taxpayer's request for an APA.

Although a taxpayer's acceptance into the APA program is not determined at the pre-file stage, the number of pre-file meetings held in a given period can provide a preliminary forecast of future years' inventory. It can also be used to gauge the current level of interest in the CRA's APA program. In 2019, the CRA held a total of 15 pre-file meetings.

Withdrawals from the APA process can occur during the application stage or after an acceptance of application has been granted for the program. By definition, an application withdrawal occurs when a taxpayer formally engages the CRA in an APA pre-file meeting but either chooses not to pursue an APA or is informed by the CRA that the proposed covered transaction(s) are not well suited for the APA program.

To maintain transparency in the program and to ensure applicants can meet the requirements of an APA, the CRA ensures that taxpayers have the necessary feedback on their proposed transfer pricing methodologies and covered transactions. Based on this feedback, a taxpayer may decide not to pursue an APA, while in other cases, the CRA may decide that it would not be appropriate to accept or pursue an APA with a taxpayer. If the CRA declines an APA request, or chooses not to continue in the APA process, taxpayers are provided with an explanation for the CRA's decision.

As an example, the CRA may decline an APA request when the central issue involves a matter that is before the courts. However, in most cases, taxpayers are given an opportunity to make further representations on any outstanding issues that are preventing their acceptance into the program.

APAs are best suited for current transactions that will likely continue into the future with little to no change, and where the underlying assumptions that form the basis of an APA transfer pricing methodology do not change during the immediate pre-APA period or the APA period itself. Transactions involving one-time events, such as corporate restructurings of a significant nature, are generally outside of the scope of the APA program. Apart from a refusal by the CRA, other reasons why a taxpayer may not pursue an APA may include financial constraints, significant changes in operations such as a business restructuring, and/or changes in personnel.

From an efficiency standpoint, the withdrawal of an APA during the application stage instead of during the post submission stage can represent a significant savings of resources for both taxpayers and tax administrations. In 2019, there were no withdrawals from the APA process.

On December 31, 2019, 16 applications were under consideration for acceptance to the program (that is, instances where a pre-file meeting has occurred between the CRA and a taxpayer, but a taxpayer had yet to provide the APA submission).

Program inventory

In 2019, seven new cases were accepted into the program. These new cases are in addition to those cases already reflected as part of inventory from acceptances issued in years past. Outgoing inventory, which includes APAs completed and withdrawn from the program, totalled twelve cases. Closing inventory at the end of 2019 was 66 cases.

Table 1

Program inventory										
Period	Pre-file meetings	Applications withdrawals	Applications pending	Opening APA balance	APAs accepted	APAs completed	APAs unresolved	APA withdrawals	Closing APA balance	Change in inventory from previous period
2019	15	0	16	71	7	12	0	0	66	-5
2018	31	3	19	67	32	25	0	3	71	4
2017	24	2	23	90	16	36	0	3	67	-23
2016	23	2	17	107	12	26	0	3	90	-17
2015	24	2	8	109	23	21	1	3	107	-2
2015–2016	24	3	10	94	25	24	0	0	95	1

Intergovernmental Status

Of the 12 completed APAs in 2019, 10 were bilateral agreements with foreign tax administrations, 1 was a multilateral agreement and 1 was a unilateral agreement. This demonstrates a consistent trend whereby the majority of APAs have been bilateral or multilateral APAs involving at least one other foreign tax administration. It can reasonably be concluded that the CRA and applicants to the APA program continue to be focused on bilateral (or multilateral) arrangements to eliminate double-taxation and secure the highest degree of tax certainty.

Completion times

It is the scope and complexity of a case and not the size of the covered transaction(s) or companies involved, along with other factors such as a taxpayer's co-operation and the availability of necessary quality information, that determine the length of time required to complete an APA. The small number of cases used to calculate the CRA's APA completion time statistics, may lead to a higher variability in the figures presented below, which may lead to distortions resulting from the presence of extreme outliers.

After a case has been accepted into the program, the process that ensues generally requires a substantial investment in time and resources from all stakeholders. Bringing an APA from start to finish is broken down into three distinct stages including:

- due diligence;
- negotiations; and
- post-negotiations stage.

The **due diligence** stage begins once a candidate is accepted into the program and finishes with the completion of a position paper outlining the CRA's views on the covered transaction(s). Due diligence includes reviewing materials presented by the taxpayer, and may include undertaking site visits, issuing additional queries and/or information requests to permit the CRA to review the APA submission and complete a thorough financial and transfer pricing analysis. It concludes with the formalization of a position for competent authority negotiations.

In the **negotiations stage** (for bilateral and multilateral APAs only), the CRA engages in government-to-government negotiations with the corresponding foreign tax administration to establish an agreement on the approach and transfer pricing methodology to be used for the APA term. This can often require more analysis, research, and fact-finding to help resolve differences between the CRA's and a foreign tax administration's transfer pricing positions.

The **post-negotiations stage** pertains to the documentation and signing of a bilateral/multilateral understanding between the CRA and a foreign tax administration, and similarly the signing of a corresponding domestic APA between the CRA and the Canadian taxpayer. Depending on the complexity of the transfer pricing methodology agreed to during negotiations, as well as the other examples listed below, the time needed to finalize an APA can vary from case to case.

Focusing on the 11 bilateral/multilateral APAs closed in 2019, it took an average of 32.5 months to complete the due diligence stage. An additional 6.9 months were needed for negotiations with the corresponding foreign tax administration. And finally, 11.7 months were needed to draft and finalize the bilateral APA agreements. Overall, for bilateral/multilateral cases completed in 2019, the CRA closed a number of older files and it took an average of 51.1 months to move from acceptance to completion. In particular, 3 of the 11 cases took more than 80 months to complete. There was only one unilateral case closed in 2019; it took 22.7 months to complete.

The total time to complete an APA does not necessarily equal the sum of the due diligence, negotiations, and post-negotiations stages. In some instances, cases have been put on hold while the CRA waited for more information from a taxpayer. Instances of this nature generally occur when a taxpayer is reconsidering their suitability for the APA program or cannot provide the necessary information needed for the CRA to undertake a thorough financial and transfer pricing analysis. In other cases, delays are due to the APA program requiring additional information from the taxpayer and or the simultaneous exchange of position papers between tax administrations before starting negotiations. Any such delays are included in the times of completion at the respective stages of the APA process. In the coming year, the CRA will be reviewing the APA program to explore ways to reduce this timeline.

Table 2

Completion Times							
Period	Type	Number of Cases	Due Diligence (Months)	Negotiations (Months)	Post-Negotiations (Months)	Average Time: Acceptance to Completion (Months)	Median Time: Acceptance to Completion (Months)
2019	Bilateral/Multilateral	11	32.5	6.9	11.7	51.1	56.6
2018	Bilateral/Multilateral	24	25.2	7.9	10.9	44	41.9
2017	Bilateral/Multilateral	30	25	9.8	13.7	48.5	47.9
2016	Bilateral/Multilateral	24	30.2	5.9	11.3	47.3	42.7
2015–16	Bilateral/Multilateral	21	34.3	6	12.4	52.7	49
Weighted Average		110	28.7	7.5	12.1	48.7	48
2019	Unilateral	1	14.2	--	5.5	19.7	19.7
2018	Unilateral	1	16.7	--	1.1	17.8	17.8
2017	Unilateral	6	10	--	2.5	12.5	12.5
2016	Unilateral	2	18.2	--	5.2	23.3	23.3
2015–16	Unilateral	3	12.2	--	2.9	15.1	15.4
Weighted Average		13	12.6		3.1	15.7	15.8

Categories of transactions

The categories of intercompany transactions can broadly be classified into four groups including the transfer of tangible property; the transfer of rights associated with intangible property; intra-group services; and financing. The greatest percentage of APAs continues to be for the cross-border transfer of tangible property. As of December 31, 2019, the breakdown of APAs in process was:

- 47% for transfers of tangible property;
- 27% for intangible property;
- 23% for intra-group services; and
- 3% for financing arrangements.

Table 3

Transaction Type						
	Completed	% of total	In progress	% of total	Total	% of total
Tangible Property	2	17%	31	47%	33	42%
Intangible Property	4	33%	18	27%	22	28%
Intra-Group Services	3	25%	15	23%	18	23%
Financing	3	25%	2	3%	5	7%
	12	100%	66	100%	78	100%

Participation by industrial sector

The CRA's APA program covers a diverse array of industrial sectors. In 2019, more than two-thirds of open APA cases involved taxpayers with operations in the following sectors: automobile and other transportation equipment; computer and electronics; health; metals and minerals; technical, scientific and professional services; retail trade; and arts and entertainment. Other sectors covered include chemical and allied industries; food and beverage; petroleum; wholesale trade; construction equipment and materials; agriculture; machinery; real estate, rental and leasing; and utilities.

Participation by foreign jurisdiction

The CRA is currently engaged in bilateral or multilateral APA processes involving taxpayers from 16 different jurisdictions: Australia, Chile, China, France, Germany, India, Ireland, Japan, Korea, the Netherlands, New Zealand, Singapore, Sweden, Switzerland, the United Kingdom and the United States. The breakdown of bilateral and multilateral APAs by country continues to reflect the significant flow of goods and services exchanged between Canada and the United States, representing 50% of APA cases.

CONCLUSION

Since its inception in 1990, the APA program has become a key compliance tool for the CRA, while fostering a collaborative and co-operative relationship between taxpayers and other tax administrations and offering a vehicle to improve tax certainty. It demonstrates that communication, transparency, and compromise permit mutually agreeable resolution of complex transfer pricing issues on a proactive basis. The program provides an opportunity for taxpayers to openly discuss the challenges they face in trying to comply with the tax laws of multiple jurisdictions. Prospective tax certainty provided through the program helps to reduce barriers to trade and contributes to the free flow of capital.

In March 2019 the OECD's Forum on Tax Administration (FTA) agreed to further advance the tax certainty agenda. In particular, by identifying improvements that could be made to the APA and Mutual Agreement Procedure (MAP) the FTA agreed to the following:

"The FTA MAP Forum, in conjunction with the FTA Large Business International Programme, will study other avenues to advance on the tax certainty agenda, including by identifying improvements that could be made to the APA process and exploring the potential for the wider use of multilateral APAs and MAPs. In addition, we will explore the potential use and sharing of benchmarks for standard situations in the area of transfer pricing".¹

The importance of the work on these items was confirmed during the first Tax Certainty Day in September 2019 organized by the OECD. Canada will endeavour to be an active participant in working with other jurisdictions to identify possible improvements to the APA process.

In this context, the CRA is undertaking a review of its APA process to identify opportunities to improve timeliness. The goal of this, in conjunction with an updated information circular, is to make the APA program more timely and responsive to our taxpayers' needs while ensuring continued compliance with Canada's tax rules.

¹ OECD Forum on Tax Administration, 2019 FTA SANTIAGO COMMUNIQUE. Retrieved from: <https://www.oecd.org/tax/forum-on-tax-administration/events/forum-on-tax-administration-communique-2019.pdf>

HOW TO CONTACT THE CASD

If you have comments or questions about this report or the services offered by the Competent Authority Services Division, please contact the division:

- by phone: consult the [CASD webpage](#) for CASD managers' phone numbers;
- by fax: 613-990-7370;
- by email: CPCANMAPG@cra-arc.gc.ca;
- by post or courier:

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