

# **ANNOUNCEMENT AND REPORT CONCERNING ADVANCE PRICING AGREEMENTS**

March 23, 2021

This Announcement is issued pursuant to § 521(b) of Pub. L. 106-170, the Ticket to Work and Work Incentives Improvement Act of 1999, which requires the Secretary of the Treasury to report annually to the public concerning advance pricing agreements (APAs) and the Advance Pricing and Mutual Agreement Program (APMA Program), formerly known as the Advance Pricing Agreement Program (APA Program). The first report covered calendar years 1991 through 1999. Subsequent reports covered each calendar year 2000 through 2019 separately. This twenty-second report describes the experience, structure, and activities of the APMA Program during calendar year 2020. It does not provide guidance regarding the application of the arm's length standard.

Part I of this report includes information on the structure, composition, and operation of the APMA Program; Part II presents statistical data; and Part III includes general descriptions of various elements of the APAs executed in 2020, including types of transactions covered, transfer pricing methods used, and completion time.

John C. C. Hughes  
Director, Advance Pricing and Mutual Agreement Program

## **Part I. The APMA Program – Structure, Composition, and Operation**

### **[Pub. L. 106-170 § 521(b)(2)(A)]**

In February 2012, the former APA Program was moved from the Office of Chief Counsel to the Office of Transfer Pricing Operations<sup>1</sup> within the Large Business and International Division of the IRS and combined with the U.S. Competent Authority staff responsible for transfer pricing cases, thereby forming the APMA Program.

In September 2018, APMA restructured its management and realigned its teams. As of December 31, 2020, the APMA Program comprised 64 team leaders, 21 economists, 9 managers, and 3 assistant directors. Each assistant director oversees 3 managers who lead teams comprised of both team leaders and economists. The APMA Program's main office is in Washington, DC, and it also has offices in northern California (San Francisco and San Jose), southern California (Los Angeles and Laguna Niguel), Chicago, and New York.

On August 31, 2015, new revenue procedures governing requests under the mutual agreement procedure (MAP) and APA applications were published in 2015-35 I.R.B. on pages 236 and 263, respectively. Revenue Procedure (Rev. Proc.) 2015-41 provides guidance and instructions on filing APA requests as well as guidance and information on the administration of APAs. Rev. Proc. 2015-41 updates and supersedes Rev. Proc. 2006-9, 2006-1 C.B. 278, as modified by Rev. Proc. 2008-31, 2008-1 C.B. 1133, which is also superseded. Rev. Proc. 2015-40 provides procedures and guidance on requesting assistance from the U.S. Competent Authority where the taxpayer believes that the actions of the United States or a treaty country result or will result in the taxpayer being subject to taxation not in accordance with the applicable U.S. tax treaty. Rev. Proc. 2015-40 updates and supersedes Rev. Proc. 2006-54, 2006-2 C.B. 1035.

Model APAs appear as appendices to this report. Appendix 1 is the model for APAs covered by Rev. Proc. 2006-9. Appendix 2 is the current model APA for APAs covered by Rev. Proc. 2015-41. A list of primary APMA contacts is available at <https://www.irs.gov/businesses/corporations/apma-contacts>.

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<sup>1</sup> In 2017, Transfer Pricing Operations became Treaty & Transfer Pricing Operations.

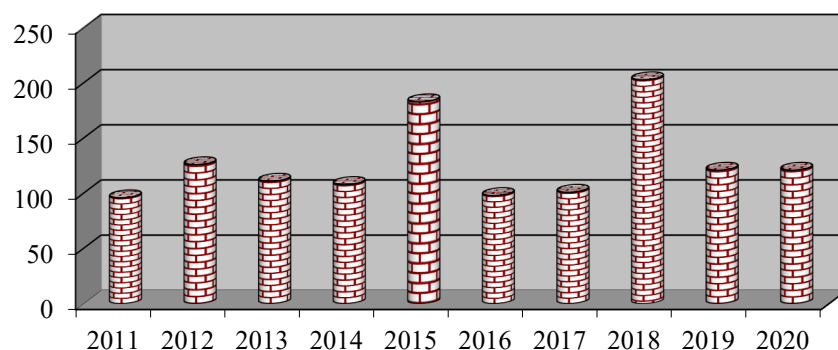
## Part II. APMA Program Statistical Data

[Pub. L. 106-170 § 521(b)(2)(C)(i-viii)]

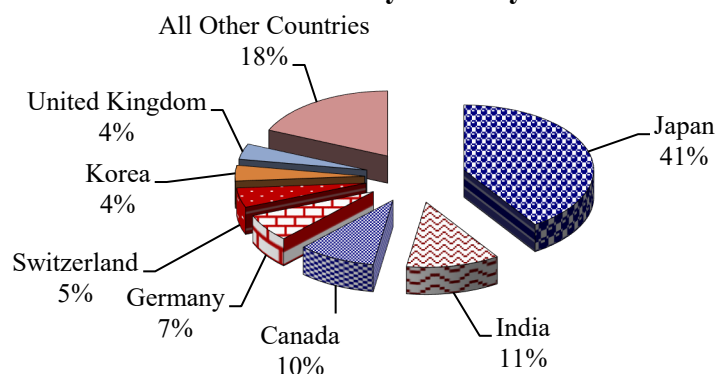
**Table 1: APA Applications Filed**  
**§ 521(b)(2)(C)(i)**

	Unilateral	Bilateral	Multilateral	Total
Filed 1991-1999 <sup>2</sup>				401
Filed 2000-2019	622	1,621	26	2,269
Filed in 2020	15	103	3	121
<b>Total Filed 1991-2020</b>				<b>2,791</b>

**APA Applications Filed**  
**2011-2020**



**Bilateral APA Applications Filed**  
**by Country**



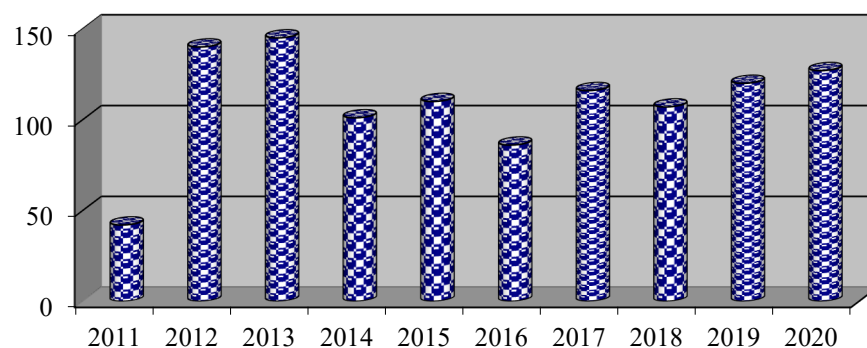
The charts above illustrate the number of complete applications filed per year and the bilateral requests received in 2020 by foreign country. As of December 31, 2020, APMA had also received 25 user fee filings that were not yet accompanied by substantially complete APA applications, in addition to the 121 complete APA applications.

<sup>2</sup> The first APA Statutory Report, which compiled APA data from 1991-1999, did not report the cumulative number of applications for those years by submission type, so the cumulative totals cannot be reported in that manner.

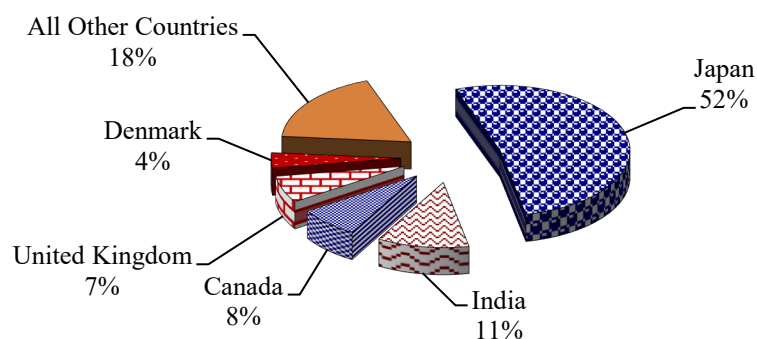
**Table 2: Executed<sup>3</sup> and Pending APAs**  
**§ 521(b)(2)(C)(ii-vi)**

	Unilateral	Bilateral	Multilateral	Total
Total Executed 1991-2019	643	1,280	17	1,940
Total Executed in 2020	19	105	3	127
<b>Total Executed 1991-2020</b>	<b>662</b>	<b>1,385</b>	<b>20</b>	<b>2,067</b>
<b>Total Pending as of 12/31/2020</b>	<b>43</b>	<b>384</b>	<b>21</b>	<b>448</b>
<i>Renewals Executed in 2020<sup>4</sup></i>	<i>11</i>	<i>64</i>	<i>0</i>	<i>75</i>
<i>Renewals Pending<sup>5</sup> as of 12/31/2020</i>	<i>25</i>	<i>154</i>	<i>8</i>	<i>187</i>

**Executed APAs**  
**2011-2020**



**Executed Bilateral APAs**  
**by Country**



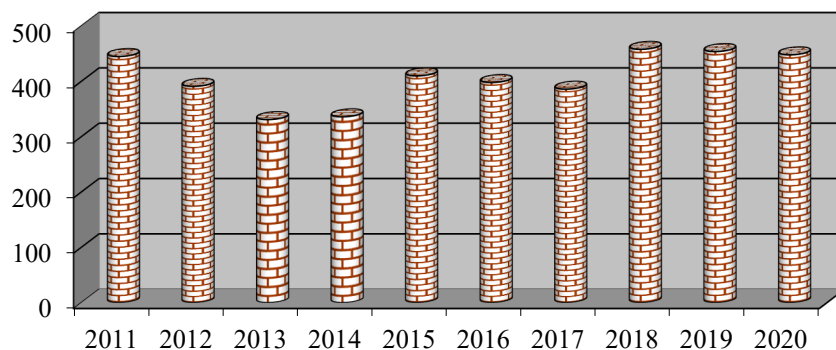
In 2020, the percentage of renewals executed remained fairly consistent (59 percent in 2020 versus 57 percent in 2019). The charts above illustrate the total number of APAs executed per year and the countries involved in the executed bilateral APAs.

<sup>3</sup> Executed APAs refer to all APAs finalized or renewed.

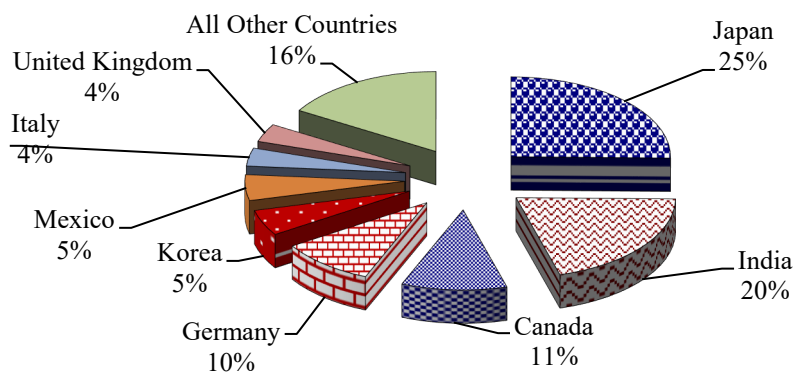
<sup>4</sup> The number of renewals executed is included in the total number of APAs executed during the year.

<sup>5</sup> The number of renewals still pending as of year-end is also included in the total number of pending APAs.

### Pending APAs 2011-2020



### Pending Bilateral APAs by Country



As the top chart illustrates, the number of pending requests decreased slightly relative to December 31, 2019. As of December 31, 2020, over half of the pending bilateral APA requests involved either Japan, India, or Canada.

**Table 3: APAs Revoked or Cancelled and Applications Withdrawn**  
§ 521(b)(2)(C)(vii)

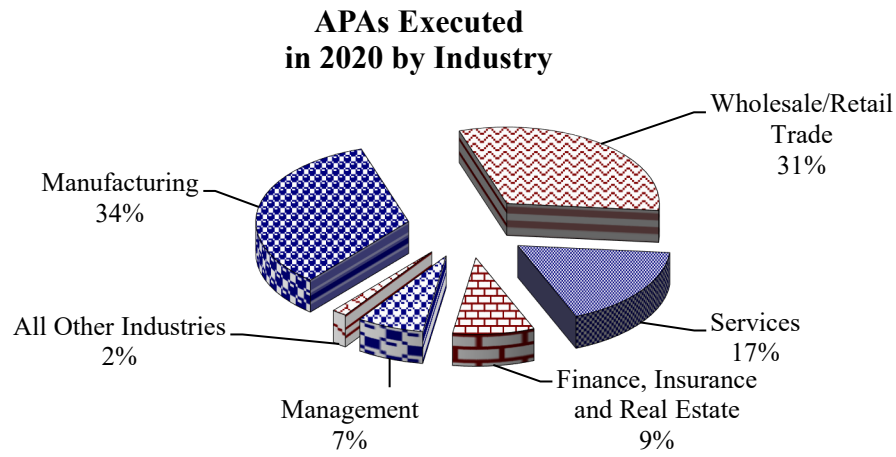
	Unilateral	Bilateral	Multilateral	Total
Revoked or Cancelled in 2020	0	0	0	0
<b>Total Revoked or Cancelled 1991-2020<sup>6</sup></b>				<b>11</b>
Applications Withdrawn in 2020	2	5	0	7
<b>Total Applications Withdrawn 1991-2020<sup>7</sup></b>				<b>272</b>

<sup>6</sup> The first APA Statutory Report, which compiled APA data from 1991-1999, did not report the cumulative number of applications for those years by submission type, so the cumulative totals cannot be reported in that manner.

<sup>7</sup> See *supra* note 6.

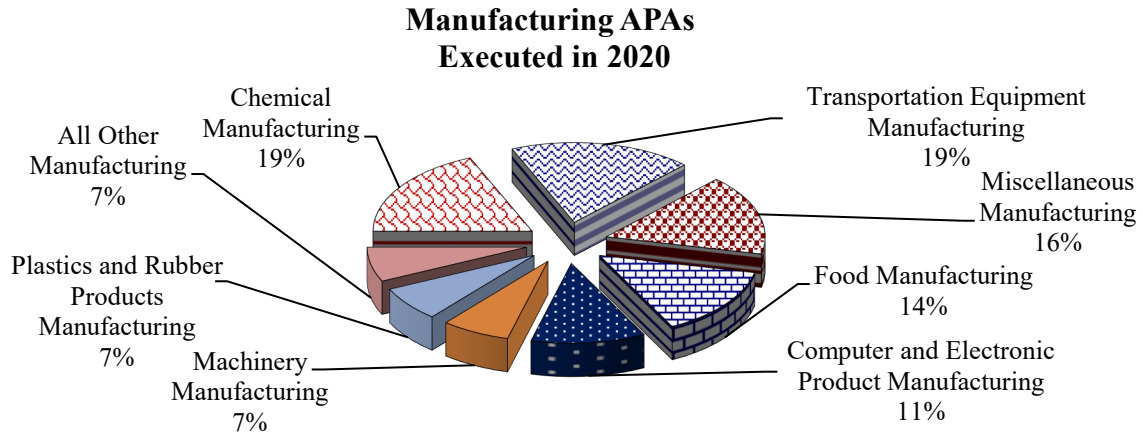
**Table 4: APAs Executed in 2020 by Industry**  
**§ 521(b)(2)(C)(viii)**

Industry	
Manufacturing	43
Wholesale/Retail Trade	40
Services	22
Finance, Insurance, and Real Estate	11
Management	9
All Other Industries	2



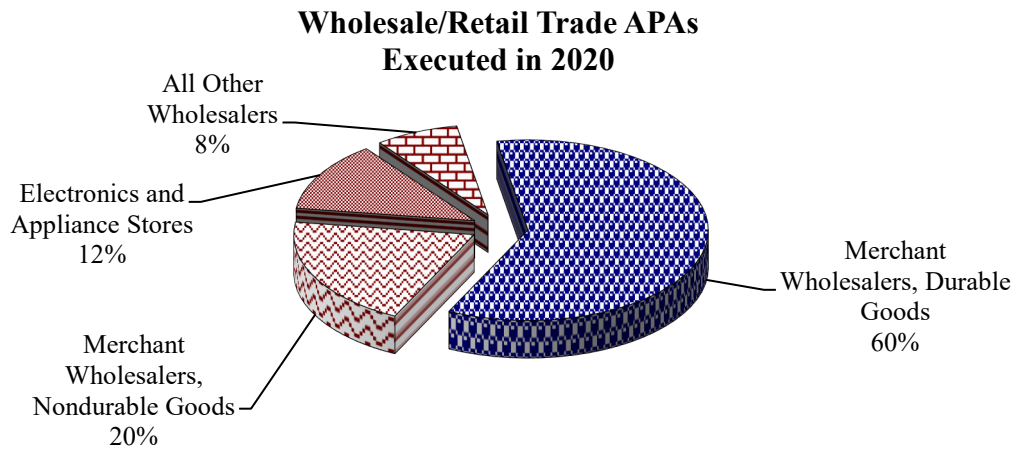
**Table 4a: Manufacturing APAs Executed in 2020**

Manufacturing	
Chemical Manufacturing	8
Transportation Equipment Manufacturing	8
Miscellaneous Manufacturing	7
Food Manufacturing	6
Computer and Electronic Product Manufacturing	5
Machinery Manufacturing	3
Plastics and Rubber Products Manufacturing	3
All Other Manufacturing	3



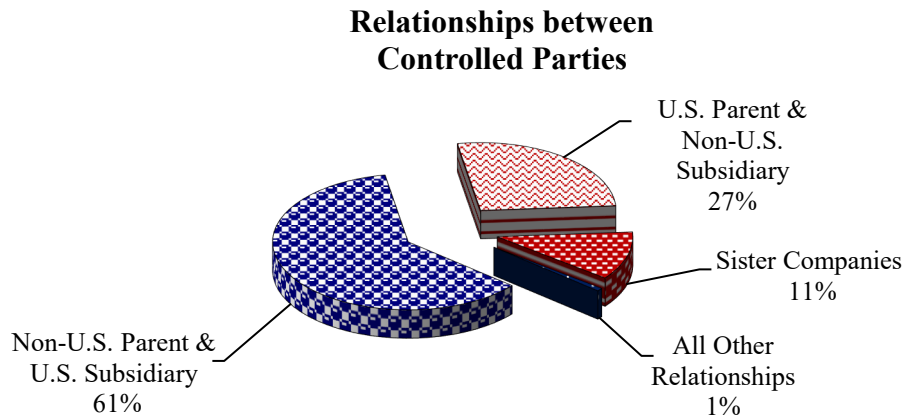
**Table 4b: Wholesale/Retail Trade APAs Executed in 2020**

Wholesale/Retail Trade	
Merchant Wholesalers, Durable Goods	24
Merchant Wholesalers, Nondurable Goods	8
Electronics and Appliance Stores	5
All Other Wholesalers	3



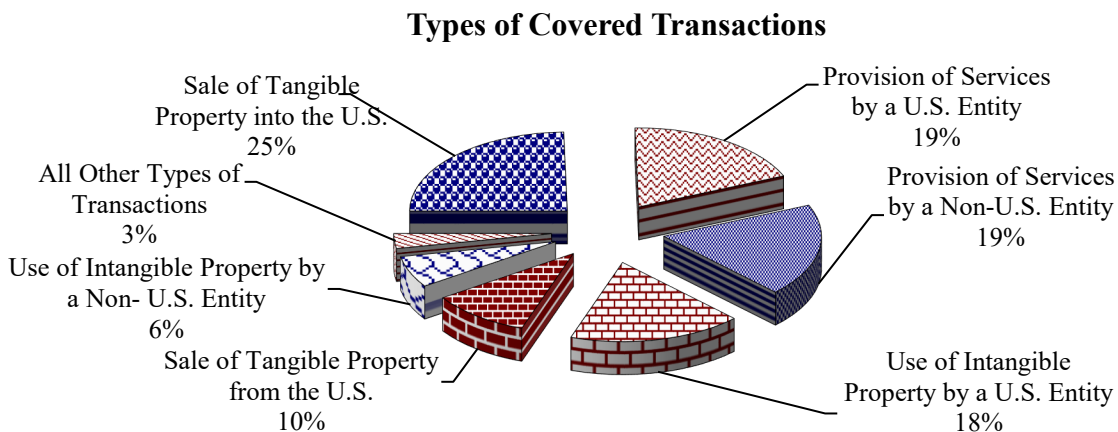
### Part III. General Descriptions of APAs Executed in 2020 [Pub. L. 106-170 § 521(b)(2)(D) and (E)]

#### Nature of the Relationships § 521(b)(2)(D)(i)



As in prior years, more than half of the APAs executed in 2020 involved transactions between non-U.S. parents and U.S. subsidiaries.

#### Covered Transactions, Functions and Risks, and Tested Parties § 521(b)(2)(D)(ii-iii)



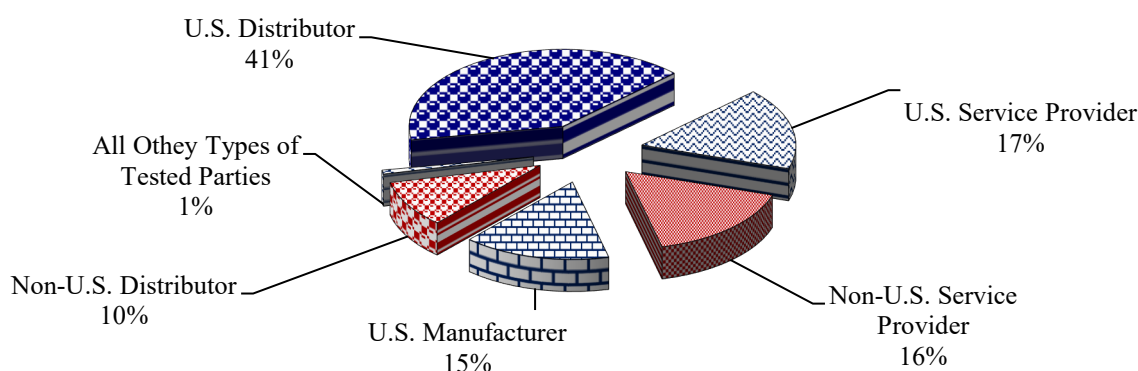
Although most of the transactions<sup>8</sup> covered in APAs executed in 2020 involve the sale of tangible goods or the provision of services, approximately 25 percent of transactions covered in APAs executed in 2020 involve the use of intangible property, which can be among the most challenging transactions in APMA's inventory.

<sup>8</sup> APAs often cover more than one type of transaction.



In the majority of APAs, the covered transactions involve numerous business functions and risks. For instance, with respect to functions, APAs involving manufactured products typically involve a controlled group that conducts research and development (R&D), engages in product design and engineering, manufactures the product, markets and distributes the product, and performs support functions such as legal, finance, and human resources. Regarding risks, the controlled group may assume a variety of risks, including market risks, R&D risks, financial risks, credit and collection risks, product liability risks, and general business risks. In the APA evaluation process, a significant amount of time and effort is devoted to understanding how the functions and risks are allocated amongst the controlled group of companies that are party to the covered transactions. For methods requiring selection of a tested party, the tested party that is chosen generally will be the least complex of the controlled taxpayers.

### Types of Tested Parties



Consistent with prior years, a majority of tested parties<sup>9</sup> in 2020 were U.S. distributors, U.S. manufacturers, or U.S. service providers.

### Transfer Pricing Methods Used § 521(b)(2)(D)(iv)

In 2020, the most commonly used transfer pricing method (TPM) for both the sale of tangible property and the use of intangible property continued to be the comparable profits method/transactional net margin method (CPM/TNMM). The CPM/TNMM was used for 84 percent of transfers of tangible and intangible property.

For covered transfers of tangible and intangible property that used the CPM/TNMM, the operating margin (OM) is still the most common profit level indicator (PLI) used to benchmark results. It was used 69 percent of the time. Other PLIs, such as the Berry Ratio and net cost plus, made up the other 31 percent. As used here, “OM” is defined as the ratio of operating profit to sales,<sup>10</sup> and “Berry Ratio” is defined as the ratio of gross profit to operating expenses.<sup>11</sup> Most

<sup>9</sup> Not all the executed APAs involve a tested party.

<sup>10</sup> See Treas. Reg. § 1.482-5(b)(4)(ii)(A).

<sup>11</sup> See Treas. Reg. § 1.482-5(b)(4)(ii)(B).

services transactions (85 percent) also used the CPM/TNMM with the OM and operating profit to operating expense being the most common PLIs (used 57 percent of the time).<sup>12</sup>

### **Sources of Comparables, Comparables Selection Criteria, and Nature of Adjustments to Comparables or Tested Party Data** **§ 521(b)(2)(D)(v-vii)**

For the APAs executed in 2020 that involved CPM/TNMM with a North American tested party, the most widely used data source for comparables was Standard and Poor's Compustat/Capital IQ database. Different sources were used in other cases (e.g., where the tested party was not a U.S. or Canadian entity or where transaction-based methods were applied). The other most commonly used databases are listed in the table below.

**Table 5: Sources of Comparable Data**

Avention (formerly known as OneSource)	Mergent
Bloomberg	Orbis
Bureau van Dijk (BvD)	Prowess
Global Vantage	RoyaltySource
ktMINE	RoyaltyStat
LoanConnector	Worldscope

In making comparability adjustments, typical balance sheet adjustments, as identified in Treas. Reg. §§ 1.482-1(d)(2) and 1.482-5(c)(2)(iv), were made in most cases, including adjustments for differing amounts of payables, receivables, and inventory. Where appropriate, adjustments for different accounting practices were made to convert from LIFO to FIFO inventory accounting, and a small number of cases also involved the accounting reclassification of expenses, e.g., from COGS to operating expenses.

### **Ranges, Goals, and Adjustment Mechanisms** **§ 521(b)(2)(D)(viii-ix)**

Most transactions covered in APAs target an interquartile range as described in Treas. Reg. § 1.482-1(e)(2)(iii)(C). Where the transaction involves a royalty payment for the use of intangible property, both specific royalty rates and ranges have been used. Where the covered transaction is the sale or license of intangible property, and the payment for such transfer would be a royalty based solely on external comparable uncontrolled transactions, a secondary or confirming method, e.g., a test of the post-royalty operating margin or cost-plus mark-up, has sometimes also been used. The testing periods of the APAs executed in 2020 were either a single year, the term of the APA only, or the term of the APA plus rollback years.

APAs executed in 2020 included several mechanisms for making adjustments to the tested party results when the results fall outside the range or do not match the point required by the APA. Examples of the mechanisms used are an adjustment bringing the tested party's results to the

<sup>12</sup> The majority of APAs that covered services transactions also included tangible/intangible transactions and are not tested under a separate PLI.

closer edge of the range applied to the results of a single year, an adjustment to the closer edge of the range applied to the results over the APA term, an adjustment to the specified point or royalty rate, or an adjustment to the median of the range for a single year.

### **Critical Assumptions**

#### **§ 521(b)(2)(D)(v)**

The model APAs used by the IRS (included as Appendix 1 of this report) include standard critical assumptions that there will be no material changes to the taxpayer’s business or to its tax or financial accounting practices during the APA term. A few bilateral cases have also included critical assumptions tied to the taxpayer’s profitability in a certain year or over the term of the APA. Pursuant to § 7.06(3) of Rev. Proc. 2015-41, APMA will cancel an APA in the event of a failure of a critical assumption unless the parties agree to revise the APA.

### **Term Lengths of APAs Executed in 2020**

#### **§ 521(b)(2)(D)(x)**

**Table 6: Term Lengths of APAs Executed in 2020**

<b>Term Length (years)</b>	<b>Number of APAs</b>
1	1
2	2
3	3
4	4
5	62
6	15
7	24
8	11
9	4
14	1
Average	6

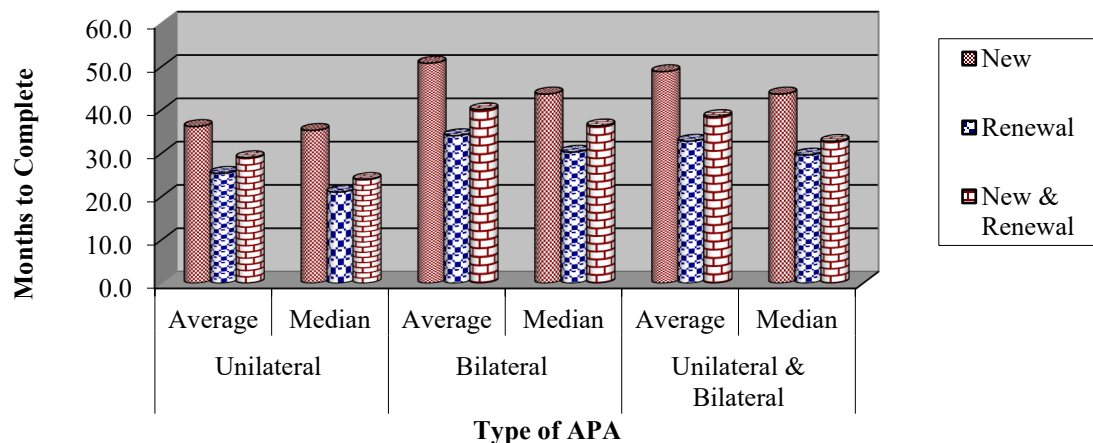
As described in § 3.03(1) of Rev. Proc. 2015-41, taxpayers should request an APA term that would cover at least five prospective years and may also request that the APA be “rolled back” to cover one or more earlier taxable years, although the appropriate APA term is decided on a case-by-case basis. Of the APAs executed in 2020, 11 percent included rollback years. A substantial number of those APAs with terms of greater than five years were submitted as a request for a five-year term, and the additional years were agreed to between the taxpayer and the IRS (or, in the case of a bilateral APA, between the IRS and the foreign government upon the taxpayer’s request) to ensure a reasonable amount of prospectivity in the APA term.

## Amount of Time Taken to Complete New and Renewal APAs § 521(b)(2)(E)

**Table 7: Months to Complete New and Renewal APAs Executed in 2020**

	Unilateral		Bilateral		Unilateral & Bilateral	
	Average	Median	Average	Median	Average	Median
New	36.2	35.3	50.8	43.7	<b>48.9</b>	<b>43.7</b>
Renewal	25.4	21.0	34.1	30.3	<b>32.8</b>	<b>29.6</b>
<b>New &amp; Renewal</b>	<b>29.0</b>	<b>24.0</b>	<b>40.1</b>	<b>36.3</b>	<b>38.5</b>	<b>32.7</b>

## Months to Complete New and Renewal APAs Executed in 2020



The median time required to complete an APA continued to decrease in 2020 to 32.7 months (from 38.8 months in 2019 and 40.2 months in 2018).

## Efforts to Ensure Compliance with APAs § 521(b)(2)(F)

As described in § 7.02(1) of Rev. Proc. 2015-41, taxpayers are required to file annual reports to demonstrate compliance with the terms and conditions of their APAs. The filing and review of these annual reports are critical parts of the APA process. Through annual report review, the APMA Program monitors taxpayer compliance with APAs on a contemporaneous basis. Annual report review also provides current information on the success or problems associated with the various TPMs adopted in the APA process.

## Nature of Documentation Required in Annual Report § 521(b)(2)(D)(xi)

APAs require taxpayers to file timely and complete annual reports describing their operations and demonstrating compliance with the APA's terms and conditions. Not every annual report will include each of the items listed in the following table<sup>13</sup>; they are required where the facts

<sup>13</sup> The source of this list is the 2009 Model APA and requirements remain largely unchanged in the 2015 Model APA.

demonstrate a need for such documentation.

1.	Statement regarding all material differences between Taxpayer's business operations during APA year and description of Taxpayer's business operations contained in Taxpayer's APA request. If there are no material differences, a statement to that effect.
2.	Statement concerning all material changes in Taxpayer's accounting methods and classifications, and methods of estimation, from those described or used in Taxpayer's request for the APA. If there has been no material change in accounting methods and classifications or methods of estimation, a statement to that effect.
3.	Any change to the Taxpayer notice information.
4.	Description of any failure to meet critical assumptions. If there has been none, a statement to that effect.
5.	Statement identifying whether any material information submitted while the APA request was pending is discovered to be false, incorrect, or incomplete.
6.	The amount, reason for, and financial analysis of any compensating adjustment, for the APA year, including but not limited to the amounts paid or received by each affected entity; the character (such as capital or ordinary expense) and country source of the funds transferred, and the specific line item(s) of any affected U.S. tax return; and any change to any entity classification for federal income tax purposes of any member of Taxpayer's group that is relevant to the APA.
7.	The amounts, description, reason for, and financial analysis of any book-tax difference relevant to the TPM for the APA year, as reflected on Schedule M-1 or Schedule M-3 of the U.S. return for the APA year.
8.	Statement regarding whether Taxpayer contemplates requesting, or has requested, to renew, modify, or cancel the APA.
9.	Financial statements and any necessary account detail to show compliance with the TPM, with a copy of the opinion from an independent certified public accountant or other documentation required by paragraph 5(f) of the APA.
10.	Financial analysis demonstrating Taxpayer's compliance with TPM.
11.	Organizational chart.
12.	A copy of the APA and any amendment.
13.	A penalty of perjury statement.

### **Approaches for Sharing of Currency or Other Risks § 521(b)(2)(D)(xii)**

In appropriate cases, APAs may provide specific approaches for dealing with risks, including currency risk, such as adjustment mechanisms and/or critical assumptions.

APPENDIX 1– Model APA (based on Rev. Proc. 2006-9)

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**ADVANCE PRICING AGREEMENT**  
**between**  
**[Insert Taxpayer’s Name]**  
**and**  
**THE INTERNAL REVENUE SERVICE**

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**PARTIES**

The Parties to this Advance Pricing Agreement (APA) are the Internal Revenue Service (IRS) and [Insert Taxpayer’s Name], EIN \_\_\_\_\_.

**RECITALS**

[Insert Taxpayer Name] is the common parent of an affiliated group filing consolidated U.S. tax returns (collectively referred to as “Taxpayer”), and is entering into this APA on behalf of itself and other members of its consolidated group.

Taxpayer’s principal place of business is [City, State]. [Insert general description of taxpayer and other relevant parties].

This APA contains the Parties’ agreement on the best method for determining arm’s-length prices of the Covered Transactions under I.R.C. section 482, the Treasury Regulations thereunder, and any applicable tax treaties.

{If renewal, add} [Taxpayer and IRS previously entered into an APA covering taxable years ending \_\_\_\_ to \_\_\_\_, executed on \_\_\_\_\_.]

**AGREEMENT**

The Parties agree as follows:

1. *Covered Transactions.* This APA applies to the Covered Transactions, as defined in Appendix A.
2. *Transfer Pricing Method.* Appendix A sets forth the Transfer Pricing Method (TPM) for the Covered Transactions.
3. *Term.* This APA applies to the APA Term, as defined in Appendix A.

4. *Operation.*

a. Revenue Procedure 2006-9 governs the interpretation, legal effect, and administration of this APA.

b. Nonfactual oral and written representations, within the meaning of sections 10.04 and 10.05 of Revenue Procedure 2006-9 (including any proposals to use particular TPMs), made in conjunction with the APA Request constitute statements made in compromise negotiations within the meaning of Rule 408 of the Federal Rules of Evidence.

5. *Compliance.*

a. Taxpayer must report its taxable income in an amount that is consistent with Appendix A and all other requirements of this APA on its timely filed U.S. Return. However, if Taxpayer's timely filed U.S. Return for any taxable year covered by this APA (APA Year) is filed prior to, or no later than 60 days after, the effective date of this APA, then Taxpayer must report its taxable income for that APA Year in an amount that is consistent with Appendix A and all other requirements of this APA either on the original U.S. Return or on an amended U.S. Return filed no later than 120 days after the effective date of this APA, or through such other means as may be specified herein.

b. *{Use or edit the following when U.S. Group or Foreign Group contains more than one member.}* [This APA addresses the arm's-length nature of prices charged or received in the aggregate between Taxpayer and Foreign Participants with respect to the Covered Transactions. Except as explicitly provided, this APA does not address and does not bind the IRS with respect to prices charged or received, or the relative amounts of income or loss realized, by particular legal entities that are members of U.S. Group or that are members of Foreign Group.]

c. For each APA Year, if Taxpayer complies with the terms and conditions of this APA, then the IRS will not make or propose any allocation or adjustment under I.R.C. section 482 to the amounts charged in the aggregate between Taxpayer and Foreign Participant[s] with respect to the Covered Transactions.

d. If Taxpayer does not comply with the terms and conditions of this APA, then the IRS may:

- i. enforce the terms and conditions of this APA and make or propose allocations or adjustments under I.R.C. section 482 consistent with this APA;
- ii. cancel or revoke this APA under section 11.06 of Revenue Procedure 2006-9; or
- iii. revise this APA, if the Parties agree.

e. Taxpayer must timely file an Annual Report (an original and four copies) for each APA Year in accordance with Appendix C and section 11.01 of Revenue Procedure 2006-9. Taxpayer must file the Annual Report for all APA Years through the APA Year ending [insert year] by [insert date]. Taxpayer must file the Annual Report for each subsequent APA Year by [insert month and day] immediately following the close of that APA Year. (If any date falls on a weekend or holiday, the Annual Report shall be due on the next date that is not a weekend or holiday.) The IRS may request additional information reasonably necessary to clarify or complete the Annual Report. Taxpayer will provide such requested information within 30 days. Additional time may be allowed for good cause.

f. The IRS will determine whether Taxpayer has complied with this APA based on Taxpayer's U.S. Returns, the Financial Statements, and other APA Records, for the APA Term and any other year necessary to verify compliance. For Taxpayer to comply with this APA, *{use the following or an alternative}* an independent certified public accountant must render an opinion that Taxpayer's Financial Statements present fairly, in all material respects, Taxpayer's financial position under U.S. GAAP.

g. In accordance with section 11.04 of Revenue Procedure 2006-9, Taxpayer will (1) maintain the APA Records, and (2) make them available to the IRS in connection with an examination under section 11.03. Compliance with this subparagraph constitutes compliance with the record-maintenance provisions of I.R.C. sections 6038A and 6038C for the Covered Transactions for any taxable year during the APA Term.

h. The True Taxable Income within the meaning of Treasury Regulations sections 1.482-1(a)(1) and (i)(9) of a member of an affiliated group filing a U.S. consolidated return will be determined under the I.R.C. section 1502 Treasury Regulations.

i. *{Optional for US Parent Signatories}* To the extent that Taxpayer's compliance with this APA depends on certain acts of Foreign Group members, Taxpayer will ensure that each Foreign Group member will perform such acts.

6. *Critical Assumptions.* This APA's critical assumptions, within the meaning of Revenue Procedure 2006-9, section 4.05, appear in Appendix B. If any critical assumption has not been met, then Revenue Procedure 2006-9, section 11.06, governs.

7. *Disclosure.* This APA, and any background information related to this APA or the APA Request, are: (1) considered "return information" under I.R.C. section 6103(b)(2)(C); and (2) not subject to public inspection as a "written determination" under I.R.C. section 6110(b)(1). Section 521(b) of Pub. L. 106-170 provides that the Secretary of the Treasury must prepare a report for public disclosure that includes certain specifically designated information concerning all APAs, including this APA, in a form that does not reveal taxpayers' identities, trade secrets, and proprietary or confidential business or financial information.

8. *Disputes.* If a dispute arises concerning the interpretation of this APA, the Parties will seek a resolution by the Director of the Advance Pricing and Mutual Agreement Program, to the extent reasonably practicable, before seeking alternative remedies.



9. *Materiality.* In this APA the terms “material” and “materially” will be interpreted consistently with the definition of “material facts” in Revenue Procedure 2006-9, section 11.06(4).
10. *Section Captions.* This APA’s section captions, which appear in *italics*, are for convenience and reference only. The captions do not affect in any way the interpretation or application of this APA.
11. *Terms and Definitions.* Unless otherwise specified, terms in the plural include the singular and vice versa. Appendix D contains definitions for capitalized terms not elsewhere defined in this APA.
12. *Entire Agreement and Severability.* This APA is the complete statement of the Parties’ agreement. The Parties will sever, delete, or reform any invalid or unenforceable provision in this APA to approximate the Parties’ intent as nearly as possible.
13. *Successor in Interest.* This APA binds, and inures to the benefit of, any successor in interest to Taxpayer.
14. *Notice.* Any notices required by this APA or Revenue Procedure 2006-9 must be in writing. Taxpayer will send notices to the IRS at the address and in the manner set forth in Revenue Procedure 2006-9, section 4.11. The IRS will send notices to:
- Taxpayer Corporation  
Attn: Jane Doe, Sr. Vice President (Taxes)  
1000 Any Road  
Any City, USA 10000  
(phone: \_\_\_\_\_)
15. *Effective Date and Counterparts.* This APA is effective starting on the date, or later date of the dates, upon which all Parties execute this APA. The Parties may execute this APA in counterparts, with each counterpart constituting an original.

***WITNESS,***

The Parties have executed this APA on the dates below.

**[Taxpayer Name in all caps]**

By: \_\_\_\_\_ Date: \_\_\_\_\_, 201\_\_\_\_  
Jane Doe  
Sr. Vice President (Taxes)

**IRS**

By: \_\_\_\_\_ Date: \_\_\_\_\_, 201\_\_\_\_  
John C. C. Hughes  
Director, Advance Pricing and Mutual Agreement Program

## APPENDIX A

### COVERED TRANSACTIONS AND TRANSFER PRICING METHOD (TPM)

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#### 1. Covered Transactions.

*[Define the Covered Transactions.]*

#### 2. APA Term.

This APA applies to Taxpayer's taxable years ending \_\_\_\_\_ through \_\_\_\_\_ (APA Term).

#### 3. TPM.

*{Note: If appropriate, adapt language from the following examples.}*

[The Tested Party is \_\_\_\_\_.]

- **CUP Method**

The TPM is the comparable uncontrolled price (CUP) method. The Arm's Length Range of the price charged for \_\_\_\_\_ is between \_\_\_\_\_ and \_\_\_\_\_ per unit.

- **CUT Method**

The TPM is the CUT Method. The Arm's Length Range of the royalty charged for the license of \_\_\_\_\_ is between \_\_\_\_\_% and \_\_\_\_\_% of [Taxpayer's, Foreign Participants', or other specified party's] Net Sales Revenue. [Insert definition of net sales revenue or other royalty base.]

- **Resale Price Method (RPM)**

The TPM is the resale price method (RPM). The Tested Party's Gross Margin for any APA Year is defined as follows: the Tested Party's gross profit divided by its sales revenue (as those terms are defined in Treasury Regulations sections 1.482-5(d)(1) and (2)) for that APA Year. The Arm's Length Range is between \_\_\_\_\_% and \_\_\_\_\_%, and the Median of the Arm's Length Range is \_\_\_\_\_%.

- **Cost Plus Method**

The TPM is the cost plus method. The Tested Party's Cost Plus Markup is defined as follows for any APA Year: the Tested Party's ratio of gross profit to production

costs (as those terms are defined in Treasury Regulations sections 1.482-3(d)(1) and (2)) for that APA Year. The Arm's Length Range is between \_\_\_\_% and \_\_\_\_%, and the Median of the Arm's Length Range is \_\_\_\_%.

- **CPM with Berry Ratio PLI**

The TPM is the comparable profits method (CPM). The profit level indicator is a Berry Ratio. The Tested Party's Berry Ratio is defined as follows for any APA Year: the Tested Party's gross profit divided by its operating expenses (as those terms are defined in Treasury Regulations sections 1.482-5(d)(2) and (3)) for that APA Year. The Arm's Length Range is between \_\_\_\_ and \_\_\_\_, and the Median of the Arm's Length Range is \_\_\_\_.

- **CPM using an Operating Margin PLI**

The TPM is the comparable profits method (CPM). The profit level indicator is an operating margin. The Tested Party's Operating Margin is defined as follows for any APA Year: the Tested Party's operating profit divided by its sales revenue (as those terms are defined in Treasury Regulations section 1.482-5(d)(1) and (4)) for that APA Year. The Arm's Length Range is between \_\_\_\_% and \_\_\_\_%, and the Median of the Arm's Length Range is \_\_\_\_%.

- **CPM using a Three-year Rolling Average Operating Margin PLI**

The TPM is the comparable profits method (CPM). The profit level indicator is an operating margin. The Tested Party's Three-Year Rolling Average operating margin is defined as follows for any APA Year: the sum of the Tested Party's operating profit (within the meaning of Treasury Regulation section 1.482-5(d)(4)) for that APA Year and the two preceding years, divided by the sum of its sales revenue (within the meaning of Treasury Regulation section 1.482-5(d)(1)) for that APA Year and the two preceding years. The Arm's Length Range is between \_\_\_\_% and \_\_\_\_%, and the Median of the Arm's Length Range is \_\_\_\_%.

- **Residual Profit Split Method**

The TPM is the residual profit split method. *[Insert description of routine profit level determinations and residual profit-split mechanism].*

*[Insert additional provisions as needed.]*

#### **4. Application of TPM.**

For any APA Year, if the results of Taxpayer's actual transactions produce a [price per unit, royalty rate for the Covered Transactions] [or] [Gross Margin, Cost Plus Markup, Berry Ratio, Operating Margin, Three-Year Rolling Average Operating Margin for the Tested Party] within

the Arm's Length Range, then the amounts reported on Taxpayer's U.S. Return must clearly reflect such results.

For any APA year, if the results of Taxpayer's actual transactions produce a [price per unit, royalty rate] [or] [Gross Margin, Cost Plus Markup, Berry Ratio, Operating Margin, Three-Year Rolling Average Operating Margin for the Tested Party] outside the Arm's Length Range, then amounts reported on Taxpayer's U.S. Return must clearly reflect an adjustment that brings the [price per unit, royalty rate] [or] [Tested Party's Gross Margin, Cost Plus Markup, Berry Ratio, Operating Margin, Three-Year Rolling Average Operating Margin] to the Median.

For purposes of this Appendix A, the "results of Taxpayer's actual transactions" means the results reflected in Taxpayer's and Tested Party's books and records as computed under U.S. GAAP [*insert another relevant accounting standard if applicable*], with the following adjustments:

- (a) [The fair value of stock-based compensation as disclosed in the Tested Party's audited financial statements shall be treated as an operating expense]; and
- (b) To the extent that the results in any prior APA Year are relevant (for example, to compute a multi-year average), such results shall be adjusted to reflect the amount of any adjustment made for that prior APA Year under this Appendix A.

## **5. APA Revenue Procedure Treatment**

If Taxpayer makes an adjustment under paragraph 4 of this Appendix A (a "primary adjustment"), Taxpayer and its related foreign entity may elect APA Revenue Procedure Treatment in accordance with section 11.02(3) of Revenue Procedure 2006-9 and avoid the possible adverse tax consequences of a secondary adjustment that would otherwise follow the primary adjustment.

*[Insert additional provisions as needed.]*

**APPENDIX B**  
**CRITICAL ASSUMPTIONS**

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This APA's critical assumptions are:

1. The business activities, functions performed, risks assumed, assets employed, and financial and tax accounting methods and classifications [and methods of estimation] of Taxpayer in relation to the Covered Transactions will remain materially the same as described or used in Taxpayer's APA Request. A mere change in business results will not be a material change.

*[Insert additional provisions as needed.]*

## **APPENDIX C**

### **APA RECORDS AND ANNUAL REPORT**

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#### **APA RECORDS**

The APA Records will consist of all documents listed below for inclusion in the Annual Report, as well as all documents, notes, work papers, records, or other writings that support the information provided in such documents.

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#### **ANNUAL REPORT**

The Annual Report (and each of the four copies required by paragraph 5(e) of this APA) will include:

1. Two copies of a properly completed APA Annual Report Summary in the form of Appendix E to this APA, one copy of the form bound with, and one copy provided separately from, the rest of the Annual Report.
2. A table of contents, organized as follows:
3. Statements that fully identify, describe, analyze, and explain:
  - a. All material differences between the U.S. Group's business operations (including functions, risks assumed, markets, contractual terms, economic conditions, property, services, and assets employed) during the APA Year from the business operations described in the APA Request. If there have been no material differences, the Annual Report will include a statement to that effect.
  - b. All material differences between the U.S. Group's accounting methods and classifications, and methods of estimation used during the APA Year, from those described or used in the APA Request. If any change was made to conform to changes in U.S. GAAP (or other relevant accounting standards) Taxpayer will specifically identify the change. If there has been no material change in accounting methods and classifications or methods of estimation, the Annual Report will include a statement to that effect.
  - c. Any change to the Taxpayer notice information in paragraph 14 of this APA.
  - d. Any failure to meet any critical assumption. If there has been no failure, the Annual Report will include a statement to that effect.

e. Whether or not material information submitted while the APA Request was pending is discovered to be false, incorrect, or incomplete.

f. Any change to any entity classification for federal income tax purposes (including any change that causes an entity to be disregarded for federal income tax purposes) of any Worldwide Group member that is a party to the Covered Transactions or is otherwise relevant to the TPM.

g. The amount, reason for, and financial analysis of (1) any primary adjustments made under Appendix A for the APA Year; and (2) any (a) secondary adjustments that follow such primary adjustments or (b) accounts receivable that Taxpayer establishes, in lieu of secondary adjustments, by electing APA Revenue Procedure Treatment pursuant to paragraph 5 of Appendix A and Revenue Procedure 2006-9, section 11.02(3), for the APA Year, including but not limited to:

- i. the amounts due or owed, and paid or received by each affected entity;
- ii. the character (such as capital, ordinary, income, expense) and country source of the funds transferred, and the specific affected line item(s) of any affected U.S. Return;
- iii. the date(s) and means by which the payments are or will be made; and
- iv. whether or not APA Revenue Procedure Treatment was elected pursuant to paragraph 5 of Appendix A and Revenue Procedure 2006-9, section 11.02(3).

h. The amounts, description, reason for, and financial analysis of any book-tax difference relevant to the TPM for the APA Year, as reflected on Schedule M-1 or Schedule M-3 of the U.S. Return for the APA Year.

i. Whether Taxpayer contemplates requesting, or has requested, to renew, modify, or cancel the APA.

4. The Financial Statements, and any necessary account detail to show compliance with the TPM, including consolidating financial statements, segmented financial data, records from the general ledger, or similar information if the assets, liabilities, income, or expenses relevant to showing compliance with the TPM are a subset of the assets, liabilities, income, or expenses presented in the Financial Statements.

5. *{Use the following or the alternative prescribed by paragraph 5(f) of this APA:}* A copy of the independent certified public accountant's opinion required by paragraph 5(f) of this APA.

6. A financial analysis that reflects Taxpayer's TPM calculations for the APA Year. The calculations must reconcile with and reference the information required under item 4 above in



sufficient account detail to allow the IRS to determine whether Taxpayer has complied with the TPM.

7. An organizational chart for the Worldwide Group, revised annually to reflect all ownership or structural changes of entities that are parties to the Covered Transactions or are otherwise relevant to the TPM.

8. A copy of the APA and any amendment.

9. A penalty of perjury statement, executed in accordance with Revenue Procedure 2006-9, section 11.01(6) and (7).

## APPENDIX D

### DEFINITIONS

The following definitions control for all purposes of this APA. The definitions appear alphabetically below:

Term	Definition
Annual Report	A report within the meaning of Revenue Procedure 2006-9, section 11.01.
APA	This Advance Pricing Agreement, which is an “advance pricing agreement” within the meaning of Revenue Procedure 2006-9, section 2.04.
APA Records	The records specified in Appendix C.
APA Request	Taxpayer’s request for this APA dated _____, including any amendments or supplemental or additional information thereto.
APA Year	This term is defined in paragraph 5(a) of this APA.
Covered Transaction(s)	This term is defined in Appendix A.
Financial Statements	Financial statements prepared in accordance with U.S. GAAP and stated in U.S. dollars.
Foreign Group	Worldwide Group members that are not U.S. persons.
Foreign Participants	[name the foreign entities involved in Covered Transactions].
I.R.C.	The Internal Revenue Code of 1986, 26 U.S.C., as amended.
Pub. L. 106-170	The Ticket to Work and Work Incentives Improvement Act of 1999.
Revenue Procedure 2006-9	Rev. Proc. 2006-9, 2006-1 C.B. 278.
Transfer Pricing Method (TPM)	A transfer pricing method within the meaning of Treasury Regulation section 1.482-1(b) and Revenue Procedure 2006-9, section 2.04.
U.S. GAAP	U.S. generally-accepted accounting principles.
U.S. Group	Worldwide Group members that are U.S. persons.

Term	Definition
U.S. Return	For each taxable year, the “returns with respect to income taxes under subtitle A” that Taxpayer must “make” in accordance with I.R.C. section 6012. <i>{Or substitute for partnership: For each taxable year, the “return” that Taxpayer must “make” in accordance with I.R.C. section 6031.}</i>
Worldwide Group	Taxpayer and all organizations, trades, businesses, entities, or branches (whether or not incorporated, organized in the United States, or affiliated) owned or controlled directly or indirectly by the same interests.

## **APPENDIX E**

### **APA ANNUAL REPORT SUMMARY FORM**

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The APA Annual Report Summary on the next page is a required APA Record. The APA Team Leader supplies some of the information requested on the form. Taxpayer is to supply the remaining information requested by the form and submit the form as part of its Annual Report.

<b>APA Annual Report SUMMARY</b>	<b>Department of the Treasury--Internal Revenue Service</b> <b>Large Business and International Division</b> <b>Treaty and Transfer Pricing Operations</b> <b>Advance Pricing and Mutual Agreement Program</b>		APA No. _____ Team Leader _____ Economist _____ Intl Examiner _____
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<b>APA Information</b>	Taxpayer Name: _____ Taxpayer EIN: _____ NAICS: _____ APA Term: Taxable years ending _____ to _____ Original APA <input type="checkbox"/> Renewal APA <input type="checkbox"/> Annual Report due dates: _____, 201__ for all APA Years through APA Year ending in 200__; for each APA Year thereafter, on _____ [month and day] immediately following the close of the APA Year Principal foreign country(ies) involved in covered transaction(s): _____ Type of APA: <input type="checkbox"/> unilateral <input type="checkbox"/> bilateral with _____ Tested party is <input type="checkbox"/> US <input type="checkbox"/> foreign <input type="checkbox"/> both Approximate dollar volume of covered transactions (on an annual basis) involving tangible goods and services: <input type="checkbox"/> N/A <input type="checkbox"/> <\$50 million <input type="checkbox"/> \$50-100 million <input type="checkbox"/> \$100-250 million <input type="checkbox"/> \$250-500 million <input type="checkbox"/> >\$500 million APA tests on (check all that apply): <input type="checkbox"/> annual basis <input type="checkbox"/> multi-year basis <input type="checkbox"/> term basis APA provides (check all that apply) a: <input type="checkbox"/> range <input type="checkbox"/> point <input type="checkbox"/> floor only <input type="checkbox"/> ceiling only <input type="checkbox"/> other _____ APA provides for adjustment (check all that apply) to: <input type="checkbox"/> nearest edge <input type="checkbox"/> median <input type="checkbox"/> other point
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<b>APA Annual Report Information</b> (to be completed by the Taxpayer)	APA date executed: _____, 201__ This APA Annual Report Summary is for APA Year(s) ending in 200__ and was filed on _____, 201__ Check here <input type="checkbox"/> if Annual Report was filed after original due date but in accordance with extension. Has this APA been amended or changed? <input type="checkbox"/> yes <input type="checkbox"/> no      Effective Date: _____ Has Taxpayer complied with all APA terms and conditions? <input type="checkbox"/> yes <input type="checkbox"/> no Were all the critical assumptions met? <input type="checkbox"/> yes <input type="checkbox"/> no Has a Primary Compensating Adjustment been made in any APA Year covered by this Annual Report? <input type="checkbox"/> yes <input type="checkbox"/> no If yes, which year(s): 200__ Have any necessary Secondary Compensating Adjustments been made? <input type="checkbox"/> yes <input type="checkbox"/> no Did Taxpayer elect APA Revenue Procedure treatment? <input type="checkbox"/> yes <input type="checkbox"/> no Any change to the entity classification of a party to the APA? <input type="checkbox"/> yes <input type="checkbox"/> no Taxpayer notice information contained in the APA remains unchanged? <input type="checkbox"/> yes <input type="checkbox"/> no Taxpayer's current US principal place of business: (City, State) _____
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<b>APA Annual Report Checklist of Key Contents</b> (to be completed by the Taxpayer)	<table style="width: 100%;"> <tr> <td>Financial analysis reflecting TPM calculations</td> <td style="text-align: right;"><input type="checkbox"/> yes <input type="checkbox"/> no</td> </tr> <tr> <td>Financial statements showing compliance with TPM(s)</td> <td style="text-align: right;"><input type="checkbox"/> yes <input type="checkbox"/> no</td> </tr> <tr> <td>Schedule M-1 or M-3 book-tax differences</td> <td style="text-align: right;"><input type="checkbox"/> yes <input type="checkbox"/> no</td> </tr> <tr> <td>Current organizational chart of relevant portion of world-wide group</td> <td style="text-align: right;"><input type="checkbox"/> yes <input type="checkbox"/> no</td> </tr> <tr> <td>Attach copy of APA</td> <td style="text-align: right;"><input type="checkbox"/> yes <input type="checkbox"/> no</td> </tr> </table> Other APA records and documents included: _____	Financial analysis reflecting TPM calculations	<input type="checkbox"/> yes <input type="checkbox"/> no	Financial statements showing compliance with TPM(s)	<input type="checkbox"/> yes <input type="checkbox"/> no	Schedule M-1 or M-3 book-tax differences	<input type="checkbox"/> yes <input type="checkbox"/> no	Current organizational chart of relevant portion of world-wide group	<input type="checkbox"/> yes <input type="checkbox"/> no	Attach copy of APA	<input type="checkbox"/> yes <input type="checkbox"/> no
Financial analysis reflecting TPM calculations	<input type="checkbox"/> yes <input type="checkbox"/> no										
Financial statements showing compliance with TPM(s)	<input type="checkbox"/> yes <input type="checkbox"/> no										
Schedule M-1 or M-3 book-tax differences	<input type="checkbox"/> yes <input type="checkbox"/> no										
Current organizational chart of relevant portion of world-wide group	<input type="checkbox"/> yes <input type="checkbox"/> no										
Attach copy of APA	<input type="checkbox"/> yes <input type="checkbox"/> no										

<b>Contact Information</b>	<table style="width: 100%;"> <tr> <td style="width: 33%;">Authorized Representative</td> <td style="width: 33%;">Phone Number</td> <td style="width: 33%;">Affiliation and Address</td> </tr> <tr> <td style="height: 40px;"></td> <td></td> <td></td> </tr> </table>	Authorized Representative	Phone Number	Affiliation and Address			
Authorized Representative	Phone Number	Affiliation and Address					

## **APPENDIX 2—MODEL APA (BASED ON REV. PROC. 2015-41)**

### **TEMPLATE FOR ADVANCE PRICING AGREEMENT UNDER REVENUE PROCEDURE 2015-41**

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The Advance Pricing and Mutual Agreement Program (“APMA”) of the Internal Revenue Service (“IRS”) is providing this template for use in drafting advance pricing agreements (“APAs”) issued under IRS Revenue Procedure 2015-41, 2015-35 I.R.B. 263 (“Rev. Proc. 2015-41”). This template is designed to systematize how taxpayers propose terms for their APAs and standardize language used in executed APAs. It will improve efficiency in the APA process and enhance consistency in the administration of the APA program.

Rev. Proc. 2015-41 requires that taxpayers include as part of a complete APA request a draft APA and a “redline” comparison of the proposed draft APA against the current model APA. *See* section 2.03, exhibit 15, of the Appendix to Rev. Proc. 2015-41. This template serves as the model APA. A taxpayer is required to produce the “redline” comparison by following the instructions below to edit this template with tracked changes. The draft APA and “redline” comparison are then to be included in Word format in the complete APA request. (Before editing the template with tracked changes, a taxpayer should remove this introduction and the instructions below from the Microsoft Word file.)

The assigned APMA team will review the APA’s terms proposed in the draft APA. If the APMA team accepts the proposed terms in light of its review of the taxpayer’s complete APA request and other information obtained during the APA process, then the text of the draft APA, edited as needed to fill in any information not available at the time of the APA Request, will be adopted as the text of a finally executed APA. If the APMA team does not accept the proposed terms, it will discuss modifications to the draft APA with the taxpayer during the APA process. For bilateral and multilateral APAs, the terms of the executed APA will of necessity be consistent with the terms of the underlying mutual agreement between the United States and one or more treaty partners.

#### **GENERAL INSTRUCTIONS**

The template is designed to minimize editing by using an options-based format for selecting from terms presented in certain sections of the model APA. The options presented are those which APMA considers standard and which it has accepted in final APAs. These options are not binding on APMA, however. APMA reserves the right to modify the option selections, the specific option language used, or any other terms before executing an APA with the taxpayer.

Options are indicated by square brackets (“[ ]”). An “x” should be inserted between the brackets to indicate the selected option (“[x]”). Options that are not selected should not be deleted, but instead should be left in the text of the draft APA. The options to which APMA and

the taxpayer ultimately agree for the final APA will be indicated by the presence or absence of an “x”. The term associated with the “x” will be given operative effect in the executed APA.

Certain options are flagged with an asterisk after the square brackets (“[\*]”). To facilitate the APMA team’s subsequent review of the draft APA, the asterisks should not be deleted. Taxpayers that select flagged options are required to specifically provide justification for the selection in the APA request. *See* section 1.02, Part 5, of the Appendix to Rev. Proc. 2015-41.

The template contains placeholder phrases consisting of a hashtag followed by one or more words in block capital letters (e.g., “#COUNTRY”). Generally, the taxpayer should replace a placeholder phrase with appropriate text, subject to the following conventions:

- If a placeholder phrase occurs within an option that the taxpayer has rejected, the taxpayer should change the hashtag to a caret (e.g., change “#COUNTRY” to “^COUNTRY”) but otherwise leave the phrase intact.<sup>14</sup> The caret indicates that the Taxpayer has rejected this option. For example, for a bilateral APA with Japan, the lines on the first page just below the title would read:

☒ Bilateral with Japan  
☐ Multilateral with ^COUNTRIES  
☐ Unilateral

- The placeholder phrase “#CURRENCY” should be replaced, for example, with “U.S. dollars,” “Euros,” or “Japanese yen.”
- The placeholder phrase “#DATE” should be replaced with a date in the format of “December 31, 2020.”

The APA Term will be expressed as dates certain, e.g., “January 1, 2017 to December 31, 2022, inclusive”, rather than as particular tax years.

Taxpayers may need to draft custom text for situations or options not included in the template. For example, a taxpayer may propose additional critical assumptions to address specific regulatory contingencies or conditions the taxpayer is expected to face during the term of the APA. As another example, the provision titled “Limitation on Assistance” at the end of the Recitals might be modified based on an understanding reached in the prefiling stage of the APA process. In some cases, a particular critical assumption might facilitate reaching an agreement on an APA. Taxpayers that include custom text are required to specifically provide justification for the inclusion in the APA request, just as selecting an option with an asterisk requires justification. Any custom text must also be evident in the “redline” comparison of the proposed draft APA.

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<sup>14</sup> As a result, almost all occurrences of the hashtag in the template will be replaced with a caret or other text in the taxpayer’s draft APA. The few remaining occurrences of the hashtag will mark a placeholder phrase that cannot yet be replaced with appropriate text (see, for example, the placeholder phrase in paragraph 6(e) for a date that cannot be determined until the APA nears execution). Searching the draft APA for the hashtag will locate all placeholder phrases that still need replacement.

## INSTRUCTIONS ON TABLES

The template contains certain tables that the taxpayer should edit. Entries in the tables will not contain hashtags, but taxpayers nevertheless should fill in the information and add additional rows to the tables if needed. Taxpayers also should fill in the “APA Information” in the table in Appendix D, to the extent available or proposed.

## INSTRUCTIONS ON APPENDIX A

Appendix A of this template contains the description of the APA’s covered issue(s) and covered method(s). Taxpayers should note the following points in completing Appendix A:

- The template includes just one covered issue with one corresponding covered method. If there is more than one covered Issue proposed for the APA, the taxpayer should add additional covered issues in Appendix A, section 3, with tracked changes.
- If there is more than one covered method, the taxpayer should first replicate the template’s entire text for Covered Method 1 in Appendix A, section 4, without tracked changes, to provide template text for each additional covered method, and then edit the text for each covered method with tracked changes.
- Normally, each covered issue will have its own corresponding covered method. However, in some cases, a covered method may apply at once to more than one covered issue. For example, covered issues may be proposed to be aggregated and tested by a single covered method. In such cases, the heading for that covered method could read, for example, “Covered Method for Covered Issues 1-3”.
- Any interaction between different covered methods should be adequately explained in the text, and in an appropriate manner. For example, an explanation might be provided in an introduction at the start of section 4 of Appendix A, preceding the description of the respective covered methods.

Appendix A uses the term “Tested Party.” When applied in the context of methods that consider, or test, data from only one party to a transaction, this term is similar in concept to the term “tested party” as discussed in the OECD Guidelines at paragraphs 3.18 and 3.19, and as defined in the U.S. Treasury Regulations section 1.482-5(b)(2). However, some methods consider, or test, data from both parties to a transaction, where there is no singular “tested” party. Even in applying such methods, however, it is typically the case that one particular party’s results are formally tested for compliance with the method. For purposes of this template, in such circumstances, the party whose results are formally tested in applying any particular method is the “Tested Party”, even if that party is not strictly a “tested party” as discussed in the OECD Guidelines paragraphs 3.18 and 3.19, or as defined in the U.S. Treasury Regulations section 1.482-5(b)(2).



**ADVANCE PRICING AGREEMENT**  
**between**  
**#SIGNATORY**  
**and**  
**THE INTERNAL REVENUE SERVICE**

☐ Bilateral with #COUNTRY  
☐ Multilateral with #COUNTRIES  
☐ Unilateral

Term: #DATE to #DATE, inclusive

☐ This APA is commonly referred to as #APA NAME.

**PARTIES**

The Parties to this APA are the Internal Revenue Service ("IRS") and #NAME OF EACH NON-IRS SIGNATORY, WITH EIN.

- ☐ #SIGNATORY will be referred to as "U.S. Taxpayer."
- ☐ #SIGNATORY is the common parent of an affiliated group filing consolidated U.S. tax returns and is entering into this APA on behalf of both itself and the following members of its consolidated group: #MEMBERS OF GROUP. All members of this consolidated group will be referred to collectively as "U.S. Taxpayer."

**RECITALS**

- ☐ This APA is a renewal of one or more prior APAs, which are listed below in reverse chronological order:

Party(ies)	Execution Date	Term

*Key:*

- **Party(ies)**: The signatory(ies) to the prior APA, other than the IRS, with each signatory's taxpayer identification number;
- **Execution Date**: The date, or the later of the dates, on which the prior APA was executed;
- **Term**: The term of the prior APA.

- ☐ This is a bilateral APA within the meaning of Rev. Proc. 2015-41 and implements the terms of a mutual agreement reached between the United States and #COUNTRY.
- ☐ This is a multilateral APA within the meaning of Rev. Proc. 2015-41 and implements the terms of a mutual agreement reached among the United States, #COUNTRIES.
- ☐ This APA is a unilateral APA within the meaning of Rev. Proc. 2015-41 and is not based on any mutual agreement.

The Parties to this APA are defined in the "Parties" section above. Regarding the Party(ies) to this APA other than the IRS:

- ☐ No such Party has an immediate parent or owner that is not a U.S. entity.
- ☐ One or more such Parties has an immediate parent or owner that is not a U.S. entity, as follows:

Party	Parent's or Owner's Identifying Information	Parent's or Owner's Contact Information

*Key:*

- **Party**: Name of the Party having an immediate parent or owner that is not a U.S. entity;
- **Parent's or Owner's Identifying Information**: Name of the immediate parent or owner of such Party, and the taxpayer identification number of that parent or owner for income tax purposes in its country of residence;
- **Parent's or Owner's Contact Information**: The immediate parent's or owner's address and phone number.

The term "Worldwide Group" is defined below in paragraph 12 of this APA. The ultimate parent entity or owner of Worldwide Group is:

#ENTITY NAME, ADDRESS, AND PHONE

U.S. Taxpayer's principal place of business is #CITY, #STATE. #BRIEF DESCRIPTION OF U.S. TAXPAYER AND NON-U.S. TAXPAYER (DEFINED IN SECTION 1 OF APPENDIX A), AND SPECIFICALLY OF EACH COVERED ENTITY (DEFINED IN SECTION 1 OF APPENDIX A).

This APA contains the Parties' agreement on the Covered Method(s) for resolving the Covered Issue(s) under Code section 482 and any other Code sections that are identified in Appendix A to this APA, the U.S. Treasury Regulations thereunder, and (if applicable):

[] The income tax convention(s) between the United States and #COUNTRY(IES).

This APA shall not limit the authority of the IRS to (1) verify compliance with this APA as to the Covered Issue(s), or (2) audit issues other than Covered Issue(s), including issues that arise under Code section 482 and any other Code sections identified in Appendix A to this APA, and the U.S. Treasury Regulations thereunder.

#### **LIMITATION ON ASSISTANCE**

The Covered Issue(s) may relate to one or more countries which (i) have an income tax convention with the United States, but (ii) are not a party to a mutual agreement whose terms are implemented by this APA. U.S. Taxpayer acknowledges that the IRS may decline to provide competent authority assistance concerning taxation by such country(ies) that relates to the Covered Issue(s). See section 2.02(4)(d) of Rev. Proc. 2015-41.

## AGREEMENT

The Parties agree as follows:

1. *Covered Entities.* This APA's Covered Entities are defined in Appendix A.
2. *Covered Issue(s).* This APA applies to the Covered Issue(s), as defined in Appendix A.
3. *Covered Method(s).* Appendix A sets forth the Covered Method(s) for the Covered Issue(s).
4. *Term.* This APA applies to the APA Term, as defined in Appendix A.
5. *Operation.*
  - a. Rev. Proc. 2015-41 governs the interpretation, legal effect, and administration of this APA.
  - b. The APMA program provides a voluntary process whereby the IRS and taxpayers may resolve transfer pricing issues and issues for which transfer pricing principles may be relevant in a principled and cooperative manner on a prospective basis. As such, the APA process (as defined in Rev. Proc. 2015-41) is an alternative to dispute resolution that benefits both taxpayers and the IRS and that is intended to promote and encourage open communication. Accordingly, the IRS and U.S. Taxpayer agree that neither party will attempt to use nonfactual oral or written representations, within the meaning of sections 6.04 and 6.05 of IRS Revenue Procedure 2015-41 (including any proposals to use particular Covered Method(s)), made in conjunction with the APA Request in any judicial or administrative proceeding. The IRS and U.S. Taxpayer also agree that factual representations made in conjunction with the APA Request may be used in judicial and administrative proceedings.
6. *Compliance.*
  - a. U.S. Taxpayer must report its taxable income in an amount that is consistent with Appendix A and all other requirements of this APA. U.S. Taxpayer must so report its taxable income in the following manner:
    - i. For any APA Tax Year for which U.S. Taxpayer timely files its original U.S. return prior to, or no later than 60 days after, the U.S. Effective Date, U.S. Taxpayer must so report its taxable income for that APA Tax Year in one of the following ways:
      - A. on such original U.S. return;
      - B. on an amended U.S. return submitted no later than 120 days after the U.S. Effective Date;

C. through a means proposed by U.S. Taxpayer and accepted by the applicable IRS practice area no later than 120 days after the U.S. Effective Date (or by such other deadline as is agreed between U.S. Taxpayer and the applicable IRS practice area); or

D. if applicable:

[]\* no later than 120 days after the U.S. Effective Date through the following means: #DESCRIPTION OF MEANS.

ii. For all other APA Tax Years, U.S. Taxpayer must so report its taxable income on its timely filed original U.S. return.

iii. The provisions of paragraphs 6(a)(i) and 6(a)(ii) are modified by this paragraph 6(a)(iii). If a Covered Method includes a term test (including the case of an annual test with a supplemental term test) or a subterm test, as described in section 4 of Appendix A, then the APA Covered Year as of which the term test or subterm test applies would change in the event of an Early Termination. Specifically, while in the absence of an Early Termination a term test would apply as of the last APA Covered Year, in the event of an Early Termination the term test would apply as of an earlier APA Covered Year. Similarly, while in the absence of an Early Termination a subterm test would apply as of the last APA Covered Year in the subterm, in the event of an Early Termination the subterm test might apply as of an earlier APA Covered Year. In these situations, the Early Termination might not be established in time for U.S. Taxpayer to know to apply the term test or subterm test as of the earlier APA Covered Year in reporting taxable income as required under paragraphs 6(a)(i) and 6(a)(ii) for the APA Tax Year corresponding to that earlier APA Covered Year. In such cases, U.S. Taxpayer may need to correct its reporting for that APA Tax Year. Specifically, U.S. Taxpayer will need to correct its income reporting for that APA Tax Year if the application of the term test or subterm test in that earlier APA Covered Year changes the existence or amount of an APA Primary Adjustment for the Covered Method for that APA Tax Year. In such cases:

A) The resulting incorrectness in the prior reporting for that APA Tax Year is excused; and

B) U.S. Taxpayer must correct such prior reporting through a means listed in paragraph 6(a)(i) within 120 days of the Early Termination being established.

b. For each Covered Issue, if any, that involves determination of pricing and/or income allocation<sup>15</sup> under Code section 482 (or Code section 367(d)) as modified by any

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<sup>15</sup> As used in this APA, "income allocation" includes allocation of loss.

applicable income tax convention, this APA addresses the pricing and/or income allocation between U.S. Taxpayer and Non-U.S. Taxpayer in the aggregate. Except as explicitly provided, this APA does not address and does not bind the IRS with respect to pricing or income allocation (1) among particular legal entities that are members of U.S. Taxpayer, or (2) among particular legal entities that are members of Non-U.S. Taxpayer. In addition, this APA does not address pricing or income allocation between an entity that is not a Covered Entity, and any entity.

c. For each APA Tax Year, if U.S. Taxpayer complies with the terms and conditions of this APA, then, provided that this APA remains effective for that APA Tax Year for a particular Covered Issue, the IRS will not make or propose any allocation or adjustment that is inconsistent with the application under this APA of the applicable Covered Method to that Covered Issue.

d. If U.S. Taxpayer does not comply with the terms and conditions of this APA, then the IRS may:

- i. enforce the terms and conditions of this APA and make or propose allocations or adjustments based on the application of the Covered Method(s) to the Covered Issue(s) as provided in this APA;
- ii. cancel or revoke this APA under section 7.06 of Rev. Proc. 2015-41; or
- iii. revise this APA, if the Parties agree.

e. U.S. Taxpayer must timely file an Annual Report for each APA Tax Year in accordance with this paragraph 6(e), Appendix C to this APA, and section 7.02 of Rev. Proc. 2015-41. Annual Reports for multiple APA Tax Years may be combined, provided that all required information for each APA Tax Year is clearly presented. For each Annual Report, U.S. Taxpayer must submit an original printed version containing a signed original “penalties of perjury” declaration, one printed copy of the contents of the original printed version, and an electronic copy of the contents of the original printed version. Any exhibits in the printed version must be tabbed, and the electronic copy is subject to the same requirements, as to medium and format, that are specified for APA requests in section 2 of the Appendix to Rev. Proc. 2015-41. Upon request, U.S. Taxpayer must provide additional copies of the printed version, at addresses specified by the IRS. U.S. Taxpayer must file the Annual Report for each APA Tax Year by the later of (i) #DATE CERTAIN, NORMALLY APPROXIMATELY 90 DAYS AFTER THE U.S. EFFECTIVE DATE, and (ii) the fifteenth day of the twelfth month following the close of the APA Tax Year. The IRS may by notice request additional information reasonably necessary to clarify or complete the Annual Report. (See paragraph 16, and section 3(c) of Appendix C, regarding notices.) U.S. Taxpayer will provide such requested information within 30 days from the date of the notice unless a later date is specified in the notice. Additional time may be allowed for good cause in the discretion of the Director of the Advance Pricing and Mutual Agreement Program.

f. The IRS will determine whether U.S. Taxpayer has complied with this APA based on U.S. Taxpayer’s U.S. returns, the Financial Statements and additional statements required

under this paragraph 6(f), and other APA Records, for all APA Tax Years and any other tax year necessary to verify compliance. The Financial Statements and additional statements required for a particular tax year are:

- ☐ For every U.S. Covered Entity, the Financial Statements together with the additional statements specified in paragraph 6(f)(i); and for every Non-U.S. Covered Entity, the Financial Statements together with the additional statements specified in paragraph 6(f)(ii).
  - ☐\* For every U.S. Covered Entity, the Financial Statements together with the additional statements specified in paragraph 6(f)(i).
  - ☐\* For every Non-U.S. Covered Entity, the Financial Statements together with the additional statements specified in paragraph 6(f)(ii).
- i. For each U.S. Covered Entity, the additional statements consist of the following statement(s):
- ☐ An audit opinion for that U.S. Covered Entity's Financial Statements, as defined in paragraph 6(f)(iii).
  - ☐\* One or more of the following, as indicated:
    - ☐ An accountant's report for that U.S. Covered Entity's Financial Statements, as defined in paragraph 6(f)(iii).
    - ☐ A self-certification for that U.S. Covered Entity's Financial Statements, as defined in paragraph 6(f)(iii).
    - ☐ A self-certification for that U.S. Covered Entity's Financial Statements, together with a tying certification for that entity's Financial Statements, as defined in paragraph 6(f)(iii).
    - ☐ #OTHER MEANS OF VERIFYING THE RELIABILITY OF THE U.S. COVERED ENTITY'S FINANCIAL STATEMENTS.
- ii. For each Non-U.S. Covered Entity, the additional statements consist of the following statement(s):
- ☐ An audit opinion for that Non-U.S. Covered Entity's Financial Statements, as defined in paragraph 6(f)(iii).

[]\* One or more of the following, as indicated:

- [] An accountant's report for that Non-U.S. Covered Entity's Financial Statements, as defined in paragraph 6(f)(iii).
- [] A self-certification for that Non-U.S. Covered Entity's Financial Statements, as defined in paragraph 6(f)(iii).
- [] A self-certification for that Non-U.S. Covered Entity's Financial Statements, together with a tying certification for that Covered Entity's Financial Statements, as defined in paragraph 6(f)(iii).
- [] #OTHER MEANS OF VERIFYING THE RELIABILITY OF THE NON-U.S. COVERED ENTITY'S FINANCIAL STATEMENTS.

iii. With reference to the Financial Statements for a particular Covered Entity for a particular tax year, certain terms used in paragraphs 6(f)(i) and 6(f)(ii) are defined as follows:

- A. An audit opinion is an opinion of an independent certified public or chartered accountant who audited the Financial Statements.
- B. An accountant's report is a report of an independent certified public or chartered accountant who is associated with the Financial Statements.
- C. A self-certification is an attestation, as defined in paragraph 6(f)(iii)(E), that the Financial Statements have been prepared according to the Applicable Accounting Standard.
- D. A tying certification consists of the following:
  - (1) An attestation, as defined in paragraph 6(f)(iii)(E), that the Financial Statements can be reconciled to the consolidated Financial Statements for that entity's direct or indirect parent according to workpapers provided with the attestation;
  - (2) The workpapers referred to in paragraph 6(f)(iii)(D)(1), which must demonstrate the consolidation of the Covered Entity's Financial Statements into the Financial Statements of the parent referred to in paragraph 6(f)(iii)(D)(1);



- (3) The Financial Statements of the parent referred to in paragraph 6(f)(iii)(D)(1); and
- (4) An audit opinion (as defined in paragraph 6(f)(iii)(A)) for the Financial Statements of the parent referred to in paragraph 6(f)(iii)(D)(1).

E. An attestation is an affirmation by an officer of the Covered Entity in the following form:

I, [Officer's Name and Title], of [Name of Covered Entity] affirm under penalties of perjury that the facts stated below are true. I either have adequate first-hand knowledge to make this affirmation or have gained adequate knowledge to make this affirmation through diligent consultation(s) with one or more individuals who have first-hand knowledge.

[Facts attested to.]

[Signature]

g. In accordance with section 7.04 of Rev. Proc. 2015-41, U.S. Taxpayer will (1) maintain the APA Records, and (2) make them available to the IRS in connection with an examination under section 7.03 of Rev. Proc. 2015-41. Compliance with this subparagraph constitutes compliance with the record-maintenance provisions of Code sections 6038A and 6038C for the Covered Issue(s) for any APA Covered Year.

h. The “true taxable income” within the meaning of U.S. Treasury Regulations sections 1.482-1(a)(1) and (i)(9) of a member of an affiliated group filing a U.S. consolidated return will be determined under the U.S. Treasury Regulations under Code section 1502.

i. To the extent that U.S. Taxpayer’s compliance with this APA depends on certain acts of other members of Worldwide Group, U.S. Taxpayer will ensure that such other members will perform such acts.

7. *Critical Assumptions.* The Critical Assumptions, which are this APA’s critical assumptions as defined in Rev. Proc. 2015-41, appear in Appendix B. If any Critical Assumption has not been met, then Rev. Proc. 2015-41, section 7.06, governs, as modified by Appendix B to this APA.

8. *Disclosure.* This APA, and any background information related to this APA or the APA Request, are: (1) considered “return information” under Code section 6103(b)(2)(C); and (2) not subject to public inspection as a “written determination” under Code section 6110(b)(1). Section 521(b) of Pub. L. 106-170 provides that the Secretary of the Treasury must prepare a report for public disclosure that includes certain specifically designated information concerning all APAs,

including this APA, in a form that does not reveal taxpayers' identities, trade secrets, and proprietary or confidential business or financial information.

9. *Disputes.* If a dispute arises concerning the interpretation or application of this APA, the Parties will seek a resolution by the Director, Treaty and Transfer Pricing Operations, to the extent reasonably practicable, before seeking alternative remedies.

10. *Materiality.* In this APA the terms "material" and "materially" will be interpreted in a manner consistent with the description of "material facts" in Rev. Proc. 2015-41, section 7.06(4).

11. *Paragraph Captions.* This APA's paragraph captions, which appear in italic type, are for convenience and reference only. The captions do not affect in any way the interpretation or application of this APA.

12. *Terms and Definitions.*

- a. Unless otherwise specified, terms in the plural include the singular and vice versa.
- b. Appendix A contains definitions for certain terms used in this APA's body and appendices.
- c. Certain terms used in this APA's body and appendices are defined as follows:

<b>Term</b>	<b>Definition</b>
Annual Report	A report within the meaning of Rev. Proc. 2015-41, section 7.02.
Advance Pricing Agreement, or “APA”	An “advance pricing agreement” within the meaning of Rev. Proc. 2015-41, section 2.02. Unless context indicates otherwise, “this APA” or “the APA” denotes the particular APA that is executed below.
APA Records	(Defined in Appendix C.)
APA Request	U.S. Taxpayer’s request for this APA, which was dated #DATE, including any amendments or supplemental or additional information thereto (including but not limited to any responses to due diligence questions).
Critical Assumptions	(Defined in paragraph 7.)
Financial Statements	Balance sheet, income statement, statement of cash flow, and explanatory notes, prepared in accordance with the Applicable Accounting Standard as defined in section 7 of Appendix A.
Non-U.S. Group Parties	In any APA Tax Year, Worldwide Group members that are not U.S. persons. (Defined in the Recitals near the start of this APA.)
Pub. L. 106-170	The Ticket to Work and Work Incentives Improvement Act of 1999.
U.S. Effective Date	(Defined in paragraph 17 and in section 7 of Appendix A. Those definitions are intended to have the same meaning. In case of conflict, the definition in paragraph 17 controls.)
U.S. Group	In any APA Tax Year, Worldwide Group members that are U.S. persons.
Worldwide Group	In any APA Tax Year, U.S. Taxpayer and all organizations, trades, businesses, entities, or branches (whether or not incorporated, organized in the United States, or affiliated) owned or controlled directly or indirectly by the same interests.

13. *Deadline References.* If a deadline under this APA falls on a Saturday, Sunday, or a legal holiday in the District of Columbia, the deadline is extended to the next succeeding day that is not a Saturday, Sunday, or legal holiday in the District of Columbia.

14. *Entire Agreement and Severability.* This APA is the complete statement of the Parties’ agreement. The Parties will sever, delete, or reform any invalid or unenforceable provision in this APA to approximate the Parties’ intent as nearly as possible.

15. *Successor in Interest.* This APA binds, and inures to the benefit of, any successor in interest to U.S. Taxpayer.

16. *Notice.* Any notices required by this APA or Rev. Proc. 2015-41 must be in writing. U.S. Taxpayer will send notices to the IRS at:

Commissioner, Large Business and International Division  
Internal Revenue Service  
1111 Constitution Avenue, NW  
SE:LB:TTPO:APMA:NCA534-01  
Washington, DC 20224  
(Attention: APMA)

The IRS will send notices to:

#NAME AND ADDRESS  
(phone: #PHONE)

The IRS also will send notices to, if applicable:

☐ #REPRESENTATIVE'S NAME AND ADDRESS  
(phone: #PHONE)

provided that a valid IRS Form 2848 "Power of Attorney and Declaration of Representative" for that person was included in the most recent Annual Report (or, if no Annual Report has been filed, was included in the APA Request).

17. *U.S. Effective Date and Counterparts.* This APA is effective starting on the date, or later date of the dates, upon which all Parties execute this APA ("U.S. Effective Date"). The Parties may execute this APA in counterparts, with each counterpart constituting an original.

***WITNESS,***

The Parties have executed this APA on the dates below.

**#SIGNATORY NAME IN BOLD FACE BLOCK CAPITAL LETTERS**

By: \_\_\_\_\_ Date: \_\_\_\_\_, 20\_\_\_\_  
#NAME  
#TITLE

**INTERNAL REVENUE SERVICE**

By: \_\_\_\_\_ Date: \_\_\_\_\_, 20\_\_\_\_  
John C. C. Hughes  
Director, Advance Pricing and Mutual Agreement Program

**APPENDIX A**  
**COVERED ENTITIES, TERM, COVERED ISSUE(S), COVERED METHOD(S),**  
**INCOME REPORTING,**  
**CONFORMING ADJUSTMENTS AND REPATRIATION OF FUNDS,**  
**CERTAIN SUBSEQUENT ADJUSTMENTS,**  
**AND DEFINITIONS**

Section 1 of this Appendix lists the Covered Entities. Section 2 defines the APA Term, APA Tax Years, and APA Covered Years. Section 3 describes the Covered Issue(s). Section 4 describes the Covered Method applicable to each Covered Issue.

Section 5 describes the application of the Covered Method(s) to income reporting and the possible need for an APA Primary Adjustment under one or more Covered Methods. Section 6 addresses conforming adjustments and repatriation of funds following APA Primary Adjustments.

Section 7 provides definitions that apply both to this Appendix and to the APA as a whole. The definitions table is based on a standard, inclusive model, and thus may include terms not used in this APA.

**1. Covered Entities**

The U.S. Covered Entity(ies) are:

#LIST OF EACH U.S. ENTITY INVOLVED IN ONE OR MORE COVERED ISSUE(S), AND ALSO (LISTED FIRST) ANY CONSOLIDATED RETURN PARENT FOR ANY SUCH ENTITY. FOR EACH ENTITY, NAME, ADDRESS, PHONE, AND EIN.

The term “U.S. Taxpayer” includes collectively all U.S. Covered Entities and any other entities that are in a consolidated return group with a U.S. Covered Entity.

The Non-U.S. Covered Entity(ies) are:

# LIST OF EACH NON-U.S. ENTITY INVOLVED IN ONE OR MORE COVERED ISSUE(S), AND ALSO (LISTED FIRST) ANY COMMON TAX REPORTING PARENT FOR ANY SUCH ENTITY. FOR EACH ENTITY, NAME, ADDRESS, AND PHONE.

The term “Non-U.S. Taxpayer” includes collectively all Non-U.S. Covered Entities and any other entities that are in a common tax reporting group with a Non-U.S. Covered Entity.

The term “Covered Entities” includes both the U.S. Covered Entities and the Non-U.S. Covered Entities.

## 2. APA Term, APA Tax Years, and APA Covered Years

The APA applies to the period from #DATE to #DATE, inclusive (the “APA Term”).

☐ The APA Term does not include a Rollback.

☐ The APA Term includes a Rollback, which covers from #DATE to #DATE, inclusive (the “Rollback Period”).

A tax year of U.S. Taxpayer that is wholly or partly contained in the APA Term is called an “APA Tax Year.” For a particular APA Tax Year, the portion of such APA Tax Year that is contained in the APA Term is called an “APA Covered Year.” Such APA Tax Year and APA Covered Year are said to “correspond” to each other or to be “corresponding.”

## 3. Covered Issue(s)

The Covered Issue(s) are as described below.

### **Covered Issue 1:**

#DESCRIPTION OF COVERED ISSUE.

## 4. Covered Method(s)

Each Covered Method applies to one or more Covered Issues. A Covered Method and the Covered Issue(s) to which the Covered Method applies are said to “correspond,” or to be “corresponding”.

The Covered Methods are summarized in the following table and are described in detail below. In case of conflict with this table, the detailed descriptions of the Covered Methods below, and the descriptions in section 3 above of the Covered Issues, control.

Covered Method Number	Applies to Covered Issues Number(s)	Summary Description of Corresponding Covered Issues	Type of Method; Results Tested	Point or Range	Testing Frequency and Periods
1					

This Appendix A uses the term “Tested Party.” When applied in the context of methods that consider, or test, data from only one party to a transaction, this term is similar in concept to the term “tested party” as discussed in the OECD Guidelines paragraphs 3.18 and 3.19, and as defined in the U.S. Treasury Regulations section 1.482-5(b)(2). However, some methods consider, or test, data from both parties to a transaction, where there is no singular “tested” party. Even in applying such methods, however, it is typically the case that one particular party’s

results are formally tested for compliance with the method. For purposes of this template, in such circumstances, the party whose results are formally tested in applying any particular method is the “Tested Party”, even if that party is not strictly a “tested party” as discussed in the OECD Guidelines paragraphs 3.18 and 3.19, or as defined in the U.S. Treasury Regulations section 1.482-5(b)(2).

**Covered Method for Covered Issue 1:**

**a. Tested Party**

The Tested Party is #TESTED PARTY.

**b. Financial Results Tested (Type of Method)**

- ☐ The Covered Method is an implementation of the comparable uncontrolled price method under the OECD Guidelines and of the comparable uncontrolled price method under the U.S. Treasury Regulations. The Tested Party’s financial results to be tested are:
  - ☐ per unit price paid, defined as the total amount paid for #DESCRIPTION OF GOODS divided by the number of #DESCRIPTION OF A UNIT OF GOODS purchased.
  - ☐ per unit price received, defined as the total amount received for #DESCRIPTION OF GOODS divided by the number of #DESCRIPTION OF A UNIT OF GOODS sold.
- ☐ The Covered Method is an implementation of the comparable uncontrolled price method under the OECD Guidelines and of the comparable uncontrolled services price method under the U.S. Treasury Regulations. The Tested Party’s financial results to be tested are:
  - ☐ per unit price paid, defined as the total amount paid for #DESCRIPTION OF SERVICES divided by the number of #DESCRIPTION OF A UNIT OF SERVICES received.
  - ☐ per unit price received, defined as the total amount received for #DESCRIPTION OF SERVICES divided by the number of #DESCRIPTION OF A UNIT OF SERVICES provided.
- ☐ The Covered Method is an implementation of the comparable uncontrolled price method under the OECD Guidelines and of the comparable uncontrolled transaction method under the U.S. Treasury Regulations. The Tested Party’s financial results to be tested are the royalty paid for the license of #DESCRIPTION OF LICENSED INTANGIBLE PROPERTY divided by the Tested Party’s:

- ☐ sales revenue from sales of #DESCRIPTION OF GOODS/SERVICES.
- ☐ #OTHER ROYALTY BASE.
- ☐ The Covered Method is an implementation of the comparable uncontrolled price method under the OECD Guidelines and of the acquisition price method under the U.S. Treasury Regulations. The Tested Party's financial results to be tested are described in subsection (c) below.
- ☐ The Covered Method is an implementation of the comparable uncontrolled price method under the OECD Guidelines and of the market capitalization method under the U.S. Treasury Regulations. The Tested Party's financial results to be tested are described in subsection (c) below.
- ☐ The Covered Method is an implementation of the resale price method under the OECD Guidelines and of the resale price method under the U.S. Treasury Regulations. The Tested Party's financial results to be tested are the gross profit margin from the sale of #DESCRIPTION OF GOODS.
- ☐ The Covered Method is an implementation of the resale price method under the OECD Guidelines and of the gross services margin method under the U.S. Treasury Regulations. The Tested Party's financial results to be tested are the gross services margin from the provision of #DESCRIPTION OF SERVICES.
- ☐ The Covered Method is an implementation of the cost plus method under the OECD Guidelines and of the cost plus method under the U.S. Treasury Regulations. The Tested Party's financial results to be tested are the gross profit markup.
- ☐ The Covered Method is an implementation of the cost plus method under the OECD Guidelines and of the cost of services plus method under the U.S. Treasury Regulations. The Tested Party's financial results to be tested are the gross services profit markup from the provision of #DESCRIPTION OF SERVICES.
- ☐ The Covered Method is based on the principles of the low value-adding intra-group services approach under the OECD Guidelines and of the services cost method under the U.S. Treasury Regulations. The Tested Party's financial results to be tested are the markup on total costs for providing #DESCRIPTION OF SERVICES.
- ☐ The Covered Method is an implementation of the transactional net margin method under the OECD Guidelines and of the comparable profits method under the U.S. Treasury Regulations. The Tested Party's financial results to be tested, as reflected in its net profit indicator (per OECD Guidelines) or profit level indicator (per U.S. Treasury Regulations), are its:



- ☐ operating margin.
  - ☐ markup on total costs.
  - ☐ Berry ratio.
  - ☐ return on operating assets.
  - ☐ return on invested capital.
  - ☐\* #OTHER NET PROFIT INDICATOR OR PROFIT LEVEL INDICATOR, WITH DEFINITION.
- ☐ The Covered Method is an implementation of the profit split (residual analysis) method under the OECD Guidelines and of the residual profit split method under the U.S. Treasury Regulations. The Tested Party's financial results to be tested are described in subsection (c) below.
  - ☐ The Covered Method is an implementation of the profit split (contribution analysis) method under the OECD Guidelines and of the comparable profit split method under the U.S. Treasury Regulations. The Tested Party's financial results to be tested are described in subsection (c) below.
  - ☐ The Covered Method is an implementation of an income based valuation technique as referenced in paragraph 6.153 of the OECD Guidelines and of the income method under the U.S. Treasury Regulations. The Tested Party's financial results to be tested are described in subsection (c) below.
  - ☐ The Covered Method is an implementation of (i) a sharing of the cost of current contributions in proportion to overall expected benefits, within a cost contribution arrangement under the OECD Guidelines, and (ii) a sharing of intangible development costs in proportion to reasonably anticipated benefits, within a cost sharing arrangement under the U.S. Treasury Regulations. The Tested Party's financial results to be tested are described in subsection (c) below.
  - ☐ The Covered Method is a method that is not specified under the OECD Guidelines and not specified under the U.S. Treasury Regulations. The Tested Party's financial results to be tested are described in subsection (c) below.

Such financial results are determined according to the Applicable Accounting Standard, with the proviso that in determining such results, accounting principles and conventions that are generally accepted in the trade or industry must be used.

Such financial results are tested against a point or range as described below. The test is carried out with a frequency, and for certain time periods, as described below. If and when these

financial results do not satisfy the test, they must be adjusted as described in section 5 of this Appendix A.

**c. Testing of Financial Results Against a Point or Range**

The Tested Party's financial results are tested as follows:

- ☐ The financial results must equal #X.
- ☐ The financial results must be within an Arm's Length Range.
  - ☐ The Arm's Length Range is from #X to #Y inclusive.
    - ☐ This Arm's Length Range has an associated Median value of #Z.
    - ☐ This Arm's Length Range has no associated Median value.
  - ☐ Two Arm's Length Ranges apply. The first is from #W to #X inclusive and applies to the annual test described in subsection (d) below. The second is from #Y to #Z inclusive and applies to the term test described in subsection (d) below.
    - ☐ The first Arm's Length Range has an associated Median value of #P, and the second Arm's Length Range has an associated Median value of #Q.
    - ☐ These Arm's Length Ranges have no associated Median value.
  - ☐ Two Arm's Length Ranges apply. The first is from #W to #X inclusive and applies to the subterm test described in subsection (d) below. The second is from #Y to #Z inclusive and applies to the annual test described in subsection (d) below.
    - ☐ The first Arm's Length Range has an associated Median value of #P, and the second Arm's Length Range has an associated Median value of #Q.
    - ☐ These Arm's Length Ranges have no associated Median value.
  - ☐ Two Arm's Length Ranges apply. The first is from #W to #X inclusive and applies to the test for the first subterm described in subsection (d) below. The second is from #Y to #Z inclusive and applies to the test for the second subterm described in subsection (d) below.

- ☐ The first Arm's Length Range has an associated Median value of #P, and the second Arm's Length Range has an associated Median value of #Q.
- ☐ These Arm's Length Ranges have no associated Median value.
- ☐ #OTHER DESCRIPTION, FOR EXAMPLE THE EVALUATION AND TESTING MECHANICS FOR A PROFIT SPLIT, AN INCOME METHOD, AN UNSPECIFIED METHOD, OR A SHARING OF COSTS UNDER A COST CONTRIBUTION ARRANGMENT/COST SHARING ARRANGEMENT.

**d. Testing Frequency and Testing Periods**

The Tested Party's financial results are tested as of certain APA Covered Years, and for certain time periods, as follows:

- ☐ The results are tested annually, meaning that they are tested as of each APA Covered Year, for a period consisting of that APA Covered Year.
- ☐ There is no additional term test.
- ☐ There is an additional term test. For this test, the results are tested as of the Last Effective APA Covered Year, for the period consisting of the Last Effective APA Covered Year and all prior APA Covered Years.

The application of the annual test and the application of the additional term test are coordinated as described in section 5 of this Appendix A.

- ☐\* The results are tested on a term basis, meaning that they are tested only once, as of the Last Effective APA Covered Year, for a period consisting of the Last Effective APA Covered Year and all prior APA Covered Years.
- ☐\* The results are tested on the basis of two subterms. For this purpose, the APA Term is divided into two subterms. The first subterm consists of all APA Covered Years ending on or before #DATE, and the second subterm consists of all other APA Covered Years. For each subterm, the results are tested as of the Last Effective APA Subterm Covered Year, for a period consisting of the Last Effective APA Subterm Covered Year and all prior APA Covered Years in the subterm.
- ☐\* The results are tested on a subterm basis for all APA Covered Years ending on or before #DATE (the "subterm"), and are tested annually for each other APA Covered Year, as follows:

The results are tested as of the Last Effective APA Subterm Covered Year, for a period consisting of the Last Effective APA Subterm Covered Year and all prior APA Covered Years in the subterm.

The results are tested as of each APA Covered Year that is not in the subterm, for a period consisting of that APA Covered Year.

- ☐\* The results are tested on a cumulative basis, meaning that (except as provided in the following sentence) they are not tested as of the first APA Covered Year but they are tested as of each other particular APA Covered Year for a period consisting of such particular APA Covered Year and all prior APA Covered Years. However, if the Last Effective APA Covered Year is the first APA Covered Year, then the results are tested as of the first APA Covered Year, for a period consisting of such APA Covered Year.
- ☐\* The results are tested on a three-year rolling average basis, meaning that the results are tested as of each APA Covered Year, for a period consisting of the APA Tax Year corresponding to the APA Covered Year (but excluding any portion of that APA Tax Year that is after the APA Term), and the Tested Party's two preceding tax years.

**e. Other Provisions**

The Tested Party's financial results, to be tested as described above, are for:

- ☐ The Tested Party as a whole.
- ☐ Only a segment of the Tested Party's activity. #DETAILED DESCRIPTION OF THE SEGMENT AND OF THE ALLOCATION AND APPORTIONMENT METHODS USED, INCLUDING ANY APPLICABLE FORMULAS AND DEFINITIONS OF QUANTITIES USED IN THOSE FORMULAS. THIS DESCRIPTION SHOULD BE DETAILED ENOUGH TO ENABLE A STRAIGHTFORWARD VERIFICATION OF COMPLIANCE BY THE IRS EXAMINATION TEAM.

When the Tested Party's financial results are tested as of a given APA Covered Year, those results shall reflect, to the extent relevant, any APA Primary Adjustment for this Covered Method made under section 5 of this Appendix A for the APA Tax Year corresponding to any prior APA Covered Year.

For this Covered Method, if applicable:

- ☐\* For APA Covered Years ending on or before #DATE, it is agreed that this Covered Method, yields financial results as shown below, and that any APA Primary Adjustments under section 5 of this Appendix A are as shown below.

#TEXT AND/OR TABLES SHOWING THE FINANCIAL RESULTS, THE TESTING OF THOSE FINANCIAL RESULTS UNDER THE COVERED METHOD, AND ANY RESULTING APA PRIMARY ADJUSTMENTS.

For this Covered Method, if applicable:

- ☐ This Covered Method addresses the pricing for a transfer of intangible property (which does not constitute a platform contribution transaction as defined in U.S. Treasury Regulations section 1.482-7(b)(1)(ii)) within the meaning of U.S. Treasury Regulations section 1.482-4. That pricing will not be subject to periodic adjustments by the IRS, during or after the APA Term, under U.S. Treasury Regulations section 1.482-4(f)(2) or (6).
- ☐ This Covered Method addresses the pricing for a platform contribution transaction (“PCT”). That PCT will not be treated as a Trigger PCT within the meaning of U.S. Treasury Regulations section 1.482-7(i)(6)(i) for purposes of making periodic adjustments, during or after the APA Term, under U.S. Treasury Regulations section 1.482-7(i)(6).

## **5. Application of Covered Method(s) to Income Reporting**

For each APA Tax Year, and for each Covered Method and corresponding Covered Issue(s), the amounts reported by U.S. Taxpayer and Non-U.S. Taxpayer for income tax purposes under the laws of the United States and #COUNTRY(IES) must clearly reflect the Tested Party’s actual transactions, allocations, and/or recordkeeping, as applicable, that relate to such Covered Issue(s), adjusted as necessary to conform with section 4 of this Appendix A. Accordingly, for each particular APA Tax Year and corresponding APA Covered Year, and for each such Covered Method:

- i. If the Tested Party’s financial results are tested as of such APA Covered Year and do not conform with section 4 of this Appendix A, then the tax reporting for such APA Tax Year must clearly reflect an adjustment that brings such results into conformance (an “APA Primary Adjustment”). If section 4 of this Appendix A specifies conformance to an Arm's Length Range, then the adjustment shall be to:
  - ☐ the Median.
  - ☐\* the near edge of the Arm’s Length Range.
  - ☐\* the Median for Covered Issues #SPECIFY WHICH ONES, and the near edge of the Arm’s Length Range for Covered Issues #SPECIFY WHICH ONES.

- ii. If an adjustment is not required under paragraph (i) above, then the tax reporting must clearly reflect the Tested Party's financial results, with no adjustment. In this case there is no APA Primary Adjustment.
- iii. If both an annual test and an additional term test apply under such Covered Method, and such APA Covered Year is the Last Effective APA Covered Year, so that as of such APA Covered Year the Tested Party's financial results are tested under both the annual test and the term test, then paragraphs (i) and (ii) above are modified by this paragraph (iii), which coordinates the application of both tests. As explained in more detail below, the annual test is applied first, followed by the term test. Specifically, the need for and amount of any APA Primary Adjustment for such APA Covered Year will be determined as follows:
  - A. First apply paragraphs (i) and (ii) above under the assumption that only the annual test applies. Any required adjustment will be referred to as the "annual adjustment" rather than an "APA Primary Adjustment." If there is no required adjustment, the annual adjustment is considered to be zero.
  - B. Next, apply paragraphs (i) and (ii) above to the Tested Party's financial results as adjusted by any nonzero annual adjustment, under the assumption that only the term test applies to those results. Any required adjustment under this application of paragraphs (i) and (ii) will be referred to as the "term adjustment" rather than an "APA Primary Adjustment." If there is no such required adjustment, the term adjustment is considered to be zero.
  - C. Add the annual adjustment and term adjustment, taking account of the magnitude and (if nonzero) direction of each. If this sum is zero, there is no APA Primary Adjustment for such APA Covered Year. If this sum is nonzero, this sum gives the magnitude and direction of the APA Primary Adjustment for such APA Covered Year. Any APA Primary Adjustment, or the lack of an APA Primary Adjustment, must be clearly reflected in the tax reporting for such APA Tax Year (see paragraphs (i) and (ii) above).
- iv. If this APA is unilateral and such APA Covered Year is within the Rollback Period, then:
  - ☐ Paragraphs (i)-(iii) above notwithstanding, an APA Primary Adjustment will not be made if that APA Primary Adjustment would decrease the income of U.S. Taxpayer for such APA Tax Year.
  - ☐\* Paragraphs (i)-(iii) above apply without modification.

If indicated, the above provisions on APA Primary Adjustments are modified as follows:

[]\* Any APA Primary Adjustment that would be made under the above provisions for an APA Tax Year ending before #DATE will instead be made for the APA Tax Year ending #THE SAME DATE (the “Telescoping Year”). For each particular Covered Method, all APA Primary Adjustments that are made for the Telescoping Year (including any APA Primary Adjustments that are moved to the Telescoping Year as just described, as well as any APA Primary Adjustment originally made for the Telescoping Year) are netted.

[] The foregoing provision applies without modification.

[] The foregoing provision applies with the following modification. An APA Primary Adjustment that is thus moved from a particular APA Tax Year (the “Original Year”) to the Telescoping Year shall be increased in amount to reflect the time value of money. That increase will consist of multiplication by a factor that is an annual rate raised to a power. The annual rate is  $1 + \frac{\text{#XY}}{100}$ . The power is the quotient of (i) the average of the number of months by which the end of the Telescoping Year is later than the end of the Original Year, and the number of months by which the start of the Telescoping Year is later than the start of the Original Year (with any fractions of months rounded to whole months), (ii) divided by twelve.

For U.S. tax purposes, the generally applicable Code rules will apply with respect to APA Primary Adjustments, except as otherwise provided in Rev. Proc. 2015-41 or in this APA.

## **6. Conforming Adjustments and Repatriation of Funds**

The provisions in this section 6 apply to “Repatriable Issues,” which are Covered Issues that concern transactions between associated enterprises that fall under Article 9 of the OECD Model Tax Convention. Such transactions correspond to transactions that under U.S. law are subject to application of Code section 482, as modified by any applicable treaty provision.

If the application of a Covered Method to a Repatriable Issue requires an APA Primary Adjustment under section 5 of this Appendix A for a given APA Tax Year, then for U.S. tax purposes there generally must be a corresponding conforming adjustment as specified in U.S. Treasury Regulations section 1.482-1(g)(3) as amplified by Rev. Proc. 99-32 or any successor revenue procedure. However, for this purpose, all APA Primary Adjustments for such APA Tax Year arising from the application of a Covered Method to a Repatriable Issue are first netted to yield a net APA Primary Adjustment for such APA Tax Year. Only if the net APA Primary Adjustment is nonzero is a conforming adjustment required.

For each APA Tax Year with a nonzero net APA Primary Adjustment, for U.S. tax purposes the conforming adjustment will be accomplished in the following steps:

- i. The conforming adjustment will be accomplished between #U.S. ENTITY and #NON-U.S. ENTITY, which will be referred to here as “U.S. Entity” and “Non-

U.S. Entity”, respectively. An intercompany payable will be established between U.S. Entity and Non-U.S. Entity in the amount and direction of the net APA Primary Adjustment, as of the last day of such APA Tax Year. This payable will be denominated in #CURRENCY. The payable will be treated as indebtedness for all U.S. federal tax purposes; provided, however, that the payable will not be treated as indebtedness for purposes of Code section 956 if the payable is satisfied within 90 days of the close of the APA Tax Year with respect to which it is established.

- ii. ☐ The intercompany payable will bear interest at an arm’s length rate.
  - ☐ Such arm’s length rate is not specified in this APA and will be determined under applicable legal principles.
  - ☐ Such arm’s length rate is determined as follows. #DESCRIPTION OF ARM’S LENGTH RATE (FOR EXAMPLE, FOR A U.S. DOLLAR PAYABLE, A CERTAIN APPLICABLE FEDERAL RATE UNDER U.S. TREASURY REGULATIONS SECTION 1.482-2(a)(2)(iii)(C)).
  - ☐ This APA is bilateral or multilateral. As agreed between the United States and #COUNTRY(IES), the intercompany payable will not bear interest.
- iii. The intercompany payable must be satisfied, in a manner permitted under Rev. Proc. 99-32 or any successor revenue procedure, within 90 days of the later of (1) the date for timely filing (with extensions) of the U.S. return for such APA Tax Year, and (2) the APA’s U.S. Effective Date. If any amount of the intercompany payable is not otherwise so satisfied within that 90-day period, such amount, on the last day of such period, will be deemed (1) to be paid between U.S. Entity and Non-U.S. Entity in satisfaction of the payable, and (2) to be paid (directly or indirectly, as specified below) between U.S. Entity and Non-U.S. Entity in the opposite direction (that is, from the deemed recipient of the intercompany payable to the deemed payor of the intercompany payable). These two deemed payments on the same day will cancel and thus yield no net cash flow between these two entities. The second of these deemed payments will be referred to as the “reverse payment.” The reverse payment will be deemed to be as follows:
  - A. If the net APA Primary Adjustment increases U.S. income:
    - ☐ The reverse payment will be deemed to be a contribution to capital from U.S. Entity to Non-U.S. Entity, either directly, or indirectly through the corporate chain, as the case may be.
    - ☐ The reverse payment will be deemed to be a distribution from U.S. Entity to Non-U.S. Entity, either directly, or indirectly through the corporate chain, as the case may be.



- ☐ The reverse payment will be deemed to be a distribution from U.S. Entity to #COMMON PARENT, either directly, or indirectly through the corporate chain, as the case may be, followed by a contribution by #COMMON PARENT to non-U.S. Entity, either directly or indirectly through the corporate chain, as the case may be.

B. If the net APA Primary Adjustment decreases U.S. income:

- ☐ The reverse payment will be deemed to be a contribution to capital from non-U.S. Entity to U.S. Entity, either directly, or indirectly through the corporate chain, as the case may be.
- ☐ The reverse payment will be deemed to be a distribution from non-U.S. Entity to U.S. Entity, either directly, or indirectly through the corporate chain, as the case may be.
- ☐ The reverse payment will be deemed to be a distribution from non-U.S. Entity to #COMMON PARENT, either directly, or indirectly through the corporate chain, as the case may be, followed by a contribution by #COMMON PARENT to U.S. Entity, either directly, or indirectly through the corporate chain, as the case may be.

This situation is generally described in paragraph 4.66 of the OECD Guidelines, and in U.S. Treasury Regulations section 1.482-1(g) and Rev. Proc. 99-32.

In this APA, if applicable:

- ☐\* For the APA Tax Year(s) ending on or before #DATE, it is agreed that the net APA Primary Adjustment(s), if any, from the application of the Covered Methods are as follows: #FOR EACH SUCH APA TAX YEAR, DESCRIPTION OF WHETHER THERE IS A NET APA PRIMARY ADJUSTMENT, AND IF SO THE AMOUNT AND DIRECTION. IF THERE IS MORE THAN ONE COVERED METHOD FOR A REPATRIABLE ISSUE, ALSO PROVIDE A TABLE SHOWING THE DERIVATION, FOR EACH SUCH APA TAX YEAR, OF THE NET APA PRIMARY ADJUSTMENT FROM THE APA PRIMARY ADJUSTMENT (OR LACK OF ONE) FOR EACH SUCH COVERED METHOD. #FOR ANY SUCH NET APA PRIMARY ADJUSTMENTS, DESCRIPTION OF THE MEANS BY WHICH THE CONFORMING ADJUSTMENT HAS BEEN OR WILL BE SATISFIED, WITH APPLICABLE DATES.

## 7. Definitions

The definitions in the table below apply to this APA.

The defined terms in this table include certain measures of profitability (e.g., operating profit, operating margin). Most of these measures are ultimately defined in terms of sales revenue, operating expenses, and operating assets (defined terms), and cogs and non-interest-bearing liabilities (undefined terms). The definitions of sales revenue, operating expenses, and operating assets contain a limitation to the relevant business activity. Similarly, each use of the terms “cogs” and “non-interest-bearing liabilities” is accompanied by a limitation to the relevant business activity. Therefore, the measures of profitability based on these five terms all are defined with a limitation to the relevant business activity. (Certain other measures of profitability in this table relate to the provision of services and are defined with reference to those services. Therefore, those measures as well contain a limitation to the relevant business activity.)

<b>Term</b>	<b>Definition</b>
Arm’s Length Range	With respect to a particular Covered Method, a numerical range that defines the values for which certain financial results of the Tested Party are considered to satisfy the arm’s length standard. (This term may be referenced in section 4 of this Appendix A.)
APA Primary Adjustment	(Defined in section 5 of this Appendix A.)
APA Covered Year	(Defined in section 2 of this Appendix A.)
APA Term	(Defined in section 2 of this Appendix A.)
APA Tax Year	(Defined in section 2 of this Appendix A.)
Applicable Accounting Standard	The Applicable Accounting Standard is #CHOOSE FROM U.S. GAAP, IFRS, ETC. for U.S. Taxpayer and #CHOOSE FROM U.S. GAAP, IFRS, ETC. for Non-U.S. Taxpayer.
Berry ratio	The ratio of gross profit to operating expenses.
Code	The U.S. Internal Revenue Code of 1986, title 26 of the United States Code, as amended.
correspond, corresponding	(With regard to APA Covered Years and APA Tax Years, defined in section 2 of this Appendix A; with regard to Covered Issues and Covered Methods, defined in section 4 of this Appendix A.)
Covered Entity(ies)	(Defined in section 1 of this Appendix A.)
Covered Issue(s)	(Defined in section 3 of this Appendix A.)
Covered Method	A method used to resolve one or more Covered Issues, as described in section 4 of this Appendix A. (In some cases, this method may be a “transfer pricing method” within the meaning of chapter II of the OECD Guidelines and U.S. Treasury Regulations section 1.482-1(b).)
Critical Assumption fails, failure of a Critical Assumption	A Critical assumption “fails” when the Critical Assumption has not been met. This situation is referred to as the “failure” of the Critical Assumption.

<b>Term</b>	<b>Definition</b>
Early Termination	<p>A termination of this APA's effectiveness, either in its entirety or only as applied to certain Covered Issues, before the end of the APA Term. Such a termination could result from one or more of the following circumstances: (i) a Critical Assumption failure, (ii) a violation of the terms and conditions of this APA, (iii) a cancellation of the APA under Rev. Proc. 2015-41, and (iv) an amendment of the APA. If an Early Termination so terminates this APA's effectiveness as applied to a particular Covered Issue, the Early Termination is said to "apply" to or for that Covered Issue.</p> <p>Any such termination of effectiveness would occur as of the end of an APA Tax Year (see Rev. Proc. 2015-41, section 7.06). Because such end of an APA Tax Year is before the end of the APA Term, such end of an APA Tax Year is also the end of the corresponding APA Covered Year (see the definitions of APA Tax Year and APA Covered Year in section 2 of this Appendix A). Thus, an Early Termination always would occur as of the end of an APA Covered Year. That fact is assumed in the definitions in this table of Last Effective APA Covered Year and Last Effective APA Subterm Covered Year.</p>
Gross profit	Sales revenue, less cost of goods sold for the relevant business activity.
Gross profit margin	gross profit, divided by sales revenue
Gross profit markup	gross profit, divided by cost of goods sold for the relevant business activity
Gross services margin	In connection with a provision of services, the ratio of gross services profit to the price paid for the services in an uncontrolled transaction. For this purpose, gross services profit equals the amount of such price that is retained by the Tested Party.
Gross services profit markup	In connection with a provision of services, gross services profit, divided by transactional costs. For this purpose, gross services profit equals sales revenue less transactional costs. Also, for this purpose, transactional costs equal costs directly attributable to providing the services. Such costs would include, for example, all compensation attributable to employees directly involved in the performance of such services, and costs of materials and supplies consumed or made available in rendering the services.
IFRS	International Financial Reporting Standards.
Invested capital	Operating assets, less non-interest-bearing liabilities used in the relevant business activity.
IRS	The Internal Revenue Service, an agency of the U.S. government.
IFRS	International Financial Reporting Standards.

<b>Term</b>	<b>Definition</b>
Last Effective APA Covered Year	For a particular Covered Method, the last APA Covered Year for which this APA remains effective as to the Covered Issue(s) corresponding to that Covered Method. The Last Effective APA Covered Year will be the last APA Covered Year unless an Early Termination applies to such Covered Issue(s). <i>See also</i> the definition in this table of Early Termination.
Last Effective APA Subterm Covered Year	For a particular Covered Method, and with reference to a particular set of APA Covered Years that is defined as a subterm, the last APA Covered Year in the subterm for which this APA remains effective as to the Covered Issue(s) corresponding to that Covered Method. The Last Effective APA Subterm Covered Year will be the last APA Covered Year in the subterm unless an Early Termination applies to such Covered Issue(s) and renders the APA ineffective as to such Covered Issue(s) before the end of the subterm. <i>See also</i> the definition in this table of Early Termination.
Markup on total costs	The ratio of operating profit to total costs.
Median	With respect to a particular Arm's Length Range, the median of a set of observations of market data from which that Arm's Length Range was determined.
Non-U.S. Taxpayer	(Defined in section 1 of this Appendix A.)
Non-U.S. Covered Entity(ies)	(Defined in section 1 of this Appendix A.)
OECD Guidelines	Organisation for Economic Co-operation and Development, <u>OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations</u> (July 2017).
OECD PE Report	Organisation for Economic Co-operation and Development, <u>2010 Report on Attribution of Profit to Permanent Establishments</u> (July 22, 2010).
Operating assets	The value of all assets used in the relevant business activity, including fixed assets and current assets (such as accounts receivable and inventories). The following items are excluded from operating assets: cash, cash equivalents, short-term investments, deferred tax assets, tax refunds, intangibles, investments in subsidiaries, portfolio investments.
Operating expenses	All expenses (including depreciation) not included in cost of goods sold except for interest expense, domestic and foreign income taxes, amortization of intangibles, and any other expenses not related to the operation of the relevant business activity. Operating expenses normally include, for example, expenses associated with advertising, promotion, sales, marketing, warehousing and distribution, administration, and a reasonable allowance for depreciation. For U.S. Taxpayer, foreign income taxes are defined in U.S. Treasury Regulations section 1.902-1(a)(7).
Operating margin	The ratio of operating profit to sales revenue.

<b>Term</b>	<b>Definition</b>
Operating profit	Sales revenue, less cost of goods sold for the relevant business activity, less operating expenses.
Rev. Proc. 99-32	A revenue procedure issued by the IRS that is cited as Rev. Proc. 99-32, 1999-2 C.B. 296.
Rev. Proc. 2015-41	A revenue procedure issued by the IRS that is cited as Rev. Proc. 2015-41, 2015-35 I.R.B 263.
Repatriable Issue	(Defined in section 6 of this Appendix A.)
Relevant Financial Data	With respect to a particular Covered Method, the financial results of the Tested Party that are tested, together with any other financial data (of the Tested Party or any other party) that are considered in determining compliance with the Covered Method.
Return on invested capital	(Defined in the same way as “return on operating assets,” but with “operating assets” replaced by “invested capital” wherever it occurs in the definition.)
Return on operating assets	<p>With respect to a particular Covered Method, the Tested Party for that Covered Method, and a testing period used in that Covered Method, the operating profit over the testing period divided by the time-weighted average operating assets over the testing period.</p> <p>For this purpose, the time-weighted average operating assets over the testing period is the sum, over all APA Covered Years in the testing period, of the following product: (i) the simple average of the operating asset levels at the start and end of the APA Tax Year corresponding to such APA Covered Year, multiplied by (ii) the ratio of the number of calendar days in the APA Covered Year, to 365.</p> <p>For example, suppose that (i) the testing period consists of two consecutive APA Covered Years, the first with 183 calendar days and the second with 366 calendar days, (ii) the total operating profit over those two years is exactly 3.4, and (iii) the operating assets levels are exactly 10 at the start of the APA tax year corresponding to the first APA Covered Year, 16 at the end of the APA Tax Year corresponding to the first APA Covered Year (which is also the start of the APA Tax Year corresponding to the second APA Covered Year), and 22 at the end of the APA Tax Year corresponding to the second APA Covered Year. Then the time-weighted average operating assets over the testing period is <math>[(10+16)/2]*(183/365) + [(16+22)/2]*(366/365) = 25.5699</math>. The return on operating assets is then <math>3.4/25.5699 = 13.30\%</math>.</p>
Rollback Period	(This term, if applicable, is defined in section 2 of this Appendix A.)
Sales revenue	Total receipts from sale of goods and provision of services, less returns and allowances, for the relevant business activity.
Tax year	A standard or irregular year that is used for tax reporting purposes. For U.S. Taxpayer, a tax year is a “taxable year,” as defined in Code section 441.

<b>Term</b>	<b>Definition</b>
Tested Party	(Defined in section 4 of this Appendix A with regard to a particular Covered Method.)
Testing period	The time period over which financial results are tested (see section 4 of Appendix A to this APA).
Total costs	Cost of goods sold for the relevant business activity, plus operating expenses.
U.S. Treasury Regulations	Tax regulations issued by the U.S. Treasury Department, found at title 26 of the Code of Federal Regulations.
U.S. Covered Entity(ies)	(Defined in section 1 of this Appendix A.)
U.S. Effective Date	The date, or later date of the dates, upon which the APA is executed by the IRS and by or on behalf of each U.S. Covered Entity.
U.S. GAAP	U.S. generally accepted accounting principles.
U.S. return	Any of the “Returns with respect to income taxes under subtitle A” required by Code section 6012, and any “return” for a partnership required by Code section 6031.
U.S. Taxpayer	(Defined in section 1 of this Appendix A.)

## **APPENDIX B CRITICAL ASSUMPTIONS**

The Critical Assumptions are:

1. The Covered Entities' business activities, functions performed, risks assumed, assets employed, contractual terms, markets, and economic conditions faced in relation to the Covered Issue(s) will remain materially the same as described in the APA Request. For this purpose, a mere change in business results will not be a material change.
2. The Covered Entities' financial accounting methods and classifications and methods of estimation in relation to the Covered Issue(s) and Covered Method(s) will remain materially the same as described or used in the APA Request.

If indicated, the effect of a critical assumption failure may be limited as follows:

- ☐ The failure of Critical Assumptions #XXX listed above will affect the effectiveness of this APA only as to Covered Issues #YYY listed in Appendix A. Thus, as to the other Covered Issues, the APA will remain in force (except to the extent some other condition affects the APA's effectiveness as to those Covered Issues).

The Covered Entities will not cause a critical assumption to fail for the purpose of rendering the APA ineffective, unless they have an independent business justification (unrelated to rendering the APA ineffective) for the action that causes the critical assumption to fail. If one or more Covered Entities do cause a critical assumption to fail for the purpose of rendering the APA ineffective, and without such independent business justification, then the Covered Entities will not withhold consent to an amendment to this APA to the effect that this APA will continue in force without regard to such failure. In this case, if a Covered Entity refuses to sign such an amendment, such an amendment may be executed without such signature and will then have the same force and effect as if the amendment had such signature.

## **APPENDIX C**

### **APA RECORDS AND ANNUAL REPORT**

#### **APA RECORDS**

The APA Records will consist of all documents listed below for inclusion in the Annual Report, as well as all documents, notes, work papers, records, or other writings that support the information provided in such documents.

#### **ANNUAL REPORT**

An Annual Report must be submitted for each APA Tax Year in accordance with paragraph 6(e) of the APA and section 7.02 of Rev. Proc. 2015-41.

For each APA Tax Year, the Annual Report (and each copy or version as required by paragraph 6(e) of the APA) will include:

1. Two copies of a properly completed APA Annual Report Summary in the form of Appendix D to this APA, one copy of the form bound with, and one copy provided separately from, the rest of the Annual Report. (The electronic version of the Annual Report need have only one copy of this item.)
2. A table of contents, organized according to the additional required items listed below.
3. For such APA Tax Year and the corresponding APA Covered Year, statements that fully identify, describe, analyze, and explain:
  - a. All material differences between the Covered Entities' business activities, functions performed, risks assumed, assets employed, contractual terms, markets, and economic conditions faced in relation to the Covered Issues during such APA Covered Year from those same items described in the APA Request. If there have been no such material differences, the Annual Report will include a statement to that effect.
  - b. All material differences between Covered Entities' financial accounting methods and classifications and methods of estimation in relation to the Covered Issues and Covered Methods used during such APA Covered Year, from those described or used in the APA Request. If any change was made to conform to changes in the Applicable Accounting Standard, U.S. Taxpayer will specifically identify the change. If there have been no such material differences, the Annual Report will include a statement to that effect.
  - c. Regarding notices under paragraph 16 of the APA:



- i. A current statement of how the IRS should provide such notices to U.S. Taxpayer (and, if applicable, to U.S. Taxpayer's representative).
  - ii. A copy of any such notices that were submitted by U.S. Taxpayer to the IRS after the last Annual Report was submitted (or, if there was no prior Annual Report, after the APA was executed). If there were no such notices, the Annual Report will include a statement to that effect.
- d. Any failure of any Critical Assumption. If there has been no such failure, the Annual Report will include a statement to that effect.
- e. Whether or not material information submitted while the APA Request was pending is discovered to be false, incorrect, or incomplete, and if so a correction or completion of that information, as applicable.
- f. Any change to any entity classification for federal income tax purposes (including any change that causes an entity to be disregarded for federal income tax purposes) of any Worldwide Group member that is a Covered Entity or is otherwise relevant to the Covered Issue(s) or Covered Method(s).
- g. The following regarding any APA Primary Adjustments made for such APA Tax Year under Appendix A to this APA:
  - i. The amounts of any APA Primary Adjustments;
  - ii. The circumstances that led to such APA Primary Adjustments being necessary;
  - iii. A calculation of the net APA Primary Adjustment as defined in Appendix A to this APA; and
  - iv. A complete description of the means by which the conforming adjustment (see section 6 of Appendix A to this APA) is accomplished, including:
    - A. a description of any accounts payable established, including the entities involved and when the payables are established;
    - B. a description of any amounts paid or deemed paid (including amounts paid or deemed paid in satisfaction of an intercompany payable established as described in section 6 of Appendix A to this APA, and including any deemed reverse payments as described in section 6 of Appendix A to this APA), that specifies the entities involved, when the amounts are paid or deemed paid, and by what means any amounts are actually paid; and

- C. the character (such as capital, ordinary, income, expense, dividend, contribution to capital) and country source of any payments and deemed payments, and the specific affected line item(s) of any affected U.S. return;
  - h. A detailed numerical explanation of how the result of the application of the Covered Methods is reflected on the U.S. return, with reference to particular line items on the U.S. return. This explanation shall include the amounts, description, reason for, and financial analysis of any book-tax differences, as reflected on Schedule M-1 or Schedule M-3 of the U.S. return for such APA Tax Year, that (i) are relevant to an APA Primary Adjustment, (ii) otherwise are relevant to the book and tax treatment of any income or expense item that is part of the Relevant Financial Data for, or is determined by, any Covered Method for such APA Tax Year, or (iii) otherwise are relevant to the APA. U.S. Taxpayer shall not simply attach a copy of the pertinent schedule. Rather, U.S. Taxpayer shall specifically identify the relevant items from that schedule and shall describe in appropriate detail the nature of those items, how they arose, and how they are accounted for.
  - i. Whether or not U.S. Taxpayer contemplates requesting, or has requested, to renew, modify, or cancel the APA.
- 4. The Financial Statements and additional statements required under paragraph 6(f) of the APA, for such APA Tax Year and for any other tax year whose financial data are relevant to compliance with the APA for such APA Tax Year;
- 5. A financial analysis that includes U.S. Taxpayer's calculations to apply the Covered Method(s) to the Covered Issue(s) for such APA Covered Year and supports those calculations with additional material that ties those calculations to the Financial Statements. The intent of this requirement is that the analysis submitted should provide a clear, complete, detailed, and self-contained means by which the IRS can verify compliance with the Covered Method(s). This requirement is further explained as follows:
  - a. The additional material must support every numerical input to U.S. Taxpayer's calculations.
  - b. The additional material could include, for example, consolidating financial statements, segmented financial data, and records from the general ledger.
  - c. Where segmented data are used, U.S. Taxpayer must specify in detail how it accomplished the segmentation, including how it made allocations and apportionments, including (i) the definition and calculation of any apportionment keys used, and (ii) the calculations applying such keys. The inputs used for those various calculations must be tied to the Financial Statements.

- d. The additional material must be annotated sufficiently to let the IRS easily trace U.S. Taxpayer's entire calculations to objective, verifiable sources of data.
  - e. Where needed for clarity, terms must be defined.
6. The financial results pertinent to the Covered Method(s), for such APA Covered Year and all prior years, entered along with data concerning the Covered Method(s) in an electronic results template available by contacting APMA.
  7. ☐ An organizational chart for Worldwide Group, revised annually to reflect all ownership or structural changes of the Covered Entities and any other entities that are relevant to the Covered Issue(s) or are otherwise relevant to the Covered Method(s).
  - ☐\* An organizational chart for a part of Worldwide Group that includes all Covered Entities and includes any other entities relevant to the Covered Issue(s) or Covered Method(s), revised annually to reflect all ownership or structural changes of entities that are involved in the Covered Issue(s) or are otherwise relevant to the Covered Issue(s) or Covered Method(s).
  8. A valid IRS Form 2848 "Power of Attorney and Declaration of Representative" for any representative to receive notices under paragraph 16 of this APA.
  9. A copy of the APA and any amendment.
  10. A penalty of perjury statement, executed in accordance with Rev. Proc. 2015-41, sections 7.02(8) and (9).

**APPENDIX D**  
**APA ANNUAL REPORT SUMMARY FORM**

The APA Annual Report Summary on the next page is a required APA Record. APMA supplies some of the information requested on the form. U.S. Taxpayer is to supply the remaining information requested by the form and submit the form as part of its Annual Report.

<b>Internal Revenue Service</b>	APMA Case No.	
<b>Large Business and International Division</b>	Reviewer	
<b>Treaty &amp; Transfer Pricing Operations</b>	Team Leader	
<b>Advance Pricing Mutual Agreement Program</b>	Economist	
	Other APA Team Members	

#### APA Information

U.S. Taxpayer's Name	
U.S. Taxpayer's EIN	
U.S. Taxpayer's NAICS	
Unilateral/Bilateral/Multilateral	
Original or Renewal	
APA Common Name, if any	
APA Request Filing Date	
Date APA Executed	
APA Term (date-to-date, inclusive)	
Foreign Countr(y)ies Involved	
Annual Report Due Dates for years ending on or before [date]:	
Annual Report Due Dates for other years: [last month of tax year] 15 following close of year	
Covered Methods Summary Description	
(e.g., CPM, operating margin 2%-5%)	
Taxpayer's Principal Representative	

#### APA Annual Report Information:

Year(s) covered by this Annual Report		
Issues for APMA's special attention (or "None")		
Taxpayer Notice Person	Name	
<i>If necessary, include a current Form 2848 for the Notice Person</i>	Title	
	Address	
	City/State/Zip	
	Phone/Fax	
	Email	
Current Representative, if any	Name	
<i>Include a current Form 2848 for the representative</i>	Title	
	Address	
	City/State/Zip	
	Phone/Fax	
	Email	

**Date Annual Report Filed (to be filled in by APMA):**