

## HIGHLIGHTS OF THIS ISSUE

These synopses are intended only as aids to the reader in identifying the subject matter covered. They may not be relied upon as authoritative interpretations.

## SPECIAL ANNOUNCEMENT

### **Announcement 2013-17, page 911.**

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 APMA Program. The first report covered calendar years 1991 through 1999. Subsequent reports covered separately each calendar year 2000 through 2011. This Fourteenth report describes the experience, structure, and activities of the APMA Program during calendar year 2012. It does not provide guidance regarding the application of the arm's length standard.

in this notice reflect certain changes implemented by the Moving Ahead for Progress in the 21st Century Act, Public Law 112-141 (MAP-21).

## ADMINISTRATIVE

### **Notice 2013-24, page 909.**

This notice provides transitional relief for late-payment additions to tax under section 6651(a)(2) of the Code due to the delayed publication of some IRS forms relating to the 2012 tax year.

### **Announcement 2013-23, page 940.**

This document contains corrections to final regulations (T.D. 9604, 2012-52 I.R.B. 730) that provides guidance on the excise tax imposed on the sale of certain medical devices, enacted by the Health Care and Education Reconciliation Act of 2010 in conjunction with the Patient Protection and Affordable Care Act.

## INCOME TAX

### **Notice 2013-24, page 909.**

This notice provides transitional relief for late-payment additions to tax under section 6651(a)(2) of the Code due to the delayed publication of some IRS forms relating to the 2012 tax year.

## EMPLOYEE PLANS

### **Notice 2013-23, page 906.**

#### **Weighted average interest rate update; corporate bond indices; 30-year Treasury securities; segment rates.**

This notice contains updates for the corporate bond weighted average interest rate for plan years beginning in March 2013; the 24-month average segment rates; the funding transitional segment rates applicable for March 2013; and the minimum present value transitional rates for February 2013. The rates

Announcements of Disbarments and Suspensions begin on page 940.  
Finding Lists begin on page ii.

# The IRS Mission

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and en-

force the law with integrity and fairness to all.

## Introduction

The Internal Revenue Bulletin is the authoritative instrument of the Commissioner of Internal Revenue for announcing official rulings and procedures of the Internal Revenue Service and for publishing Treasury Decisions, Executive Orders, Tax Conventions, legislation, court decisions, and other items of general interest. It is published weekly.

It is the policy of the Service to publish in the Bulletin all substantive rulings necessary to promote a uniform application of the tax laws, including all rulings that supersede, revoke, modify, or amend any of those previously published in the Bulletin. All published rulings apply retroactively unless otherwise indicated. Procedures relating solely to matters of internal management are not published; however, statements of internal practices and procedures that affect the rights and duties of taxpayers are published.

Revenue rulings represent the conclusions of the Service on the application of the law to the pivotal facts stated in the revenue ruling. In those based on positions taken in rulings to taxpayers or technical advice to Service field offices, identifying details and information of a confidential nature are deleted to prevent unwarranted invasions of privacy and to comply with statutory requirements.

Rulings and procedures reported in the Bulletin do not have the force and effect of Treasury Department Regulations, but they may be used as precedents. Unpublished rulings will not be relied on, used, or cited as precedents by Service personnel in the disposition of other cases. In applying published rulings and procedures, the effect of subsequent legislation, regulations, court decisions, rulings, and procedures must be considered,

and Service personnel and others concerned are cautioned against reaching the same conclusions in other cases unless the facts and circumstances are substantially the same.

The Bulletin is divided into four parts as follows:

### **Part I.—1986 Code.**

This part includes rulings and decisions based on provisions of the Internal Revenue Code of 1986.

### **Part II.—Treaties and Tax Legislation.**

This part is divided into two subparts as follows: Subpart A, Tax Conventions and Other Related Items, and Subpart B, Legislation and Related Committee Reports.

### **Part III.—Administrative, Procedural, and Miscellaneous.**

To the extent practicable, pertinent cross references to these subjects are contained in the other Parts and Subparts. Also included in this part are Bank Secrecy Act Administrative Rulings. Bank Secrecy Act Administrative Rulings are issued by the Department of the Treasury's Office of the Assistant Secretary (Enforcement).

### **Part IV.—Items of General Interest.**

This part includes notices of proposed rulemakings, disbarment and suspension lists, and announcements.

The last Bulletin for each month includes a cumulative index for the matters published during the preceding months. These monthly indexes are cumulated on a semiannual basis, and are published in the last Bulletin of each semiannual period.

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# Part III. Administrative, Procedural, and Miscellaneous

## Update for Weighted Average Interest Rates, Yield Curves, and Segment Rates

### Notice 2013-23

This notice provides guidance on the corporate bond monthly yield curve (and the corresponding spot segment rates), and the 24-month average segment rates under § 430(h)(2) of the Internal Revenue Code. In addition, this notice provides guidance as to the interest rate on 30-year Treasury securities under § 417(e)(3)(A)(ii)(II) as in effect for plan years beginning before 2008, the 30-year Treasury weighted average rate under § 431(c)(6)(E)(ii)(I), and the minimum present value segment rates under § 417(e)(3)(D) as in effect for plan years beginning after 2007. These rates reflect certain changes implemented by the Moving Ahead for Progress in the 21st Century Act, Public Law 112-141 (MAP-21). MAP-21 provides that for purposes of § 430(h)(2), the segment rates are limited by the applicable maximum percentage or the applicable minimum percentage based on the average of segment rates over a 25 year period.

#### YIELD CURVE AND SEGMENT RATES

Generally, except for certain plans under sections 104 and 105 of the Pension Protection Act of 2006, § 430 of the Code specifies the minimum funding requirements that apply to single employer plans pursuant to § 412. Section 430(h)(2) specifies the interest rates that must be used to determine a plan's target normal cost and funding target. Under this provision, present value is generally determined using three 24-month average interest rates ("segment rates"), each of which applies to cash flows during specified periods. To the extent provided under § 430(h)(2)(C)(iv), these segment rates are adjusted by the applicable percentage of the 25-year average segment rates for the period ending September 30 of the year preceding the calendar year in which the plan year begins. However, an election may be made under § 430(h)(2)(D)(ii) to use the monthly yield curve in place of the segment rates.

Notice 2007-81, 2007-44 I.R.B. 899, provides guidelines for determining the monthly corporate bond yield curve, and

the 24-month average corporate bond segment rates used to compute the target normal cost and the funding target. Pursuant to Notice 2007-81, the monthly corporate bond yield curve derived from February 2013 data is in Table I at the end of this notice. The spot first, second, and third segment rates for the month of February 2013 are, respectively, 0.99, 3.82, and 5.02. For plan years beginning on or after January 1, 2012, the 24-month average segment rates determined under § 430(h)(2)(C)(iv) must be adjusted by the applicable percentage of the corresponding 25-year average segment rates. The 25-year average segment rates for plan years beginning in 2012 and for plan years beginning in 2013 were published in Notices 2012-55 and 2013-11, respectively. The 24-month average corporate bond segment rates applicable for March 2013 without adjustment, and the adjusted 24-month average segment rates taking into account the applicable percentages of corresponding the 25-year average segment rates, are as follows:

For Plan Years Beginning In			24-Month Average Segment Rates Not Adjusted			Adjusted 24-Month Average Segment Rates, Based on Applicable Percentage of 25-Year Average Rates		
	Applicable Month		First Segment	Second Segment	Third Segment	First Segment	Second Segment	Third Segment
2012	March	2013	1.54	4.28	5.32	5.54	6.85	7.52
2013	March	2013	1.54	4.28	5.32	4.94	6.15	6.76

#### 30-YEAR TREASURY SECURITIES INTEREST RATES

Section 417(e)(3)(A)(ii)(II) (prior to amendment by PPA) defines the applicable interest rate, which must be used for purposes of determining the minimum present value of a participant's benefit under § 417(e)(1) and (2), as the annual rate of interest on 30-year Treasury securities for the month before the date of distribution or such other time as the Secretary may by regulations prescribe. Section 1.417(e)-1(d)(3) of the Income Tax Regulations provides that the applica-

ble interest rate for a month is the annual rate of interest on 30-year Treasury securities as specified by the Commissioner for that month in revenue rulings, notices or other guidance published in the Internal Revenue Bulletin.

The rate of interest on 30-year Treasury securities for February 2013 is 3.17 percent. The Service has determined this rate as the average of the yield on the 30-year Treasury bond maturing in November 2042 determined each day through February 13, 2013, and the yield on the 30-year Treasury bond maturing in February 2043

determined each day for the balance of the month.

Generally for plan years beginning after 2007, § 431 specifies the minimum funding requirements that apply to multiemployer plans pursuant to § 412. Section 431(c)(6)(B) specifies a minimum amount for the full-funding limitation described in section 431(c)(6)(A), based on the plan's current liability. Section 431(c)(6)(E)(ii)(I) provides that the interest rate used to calculate current liability for this purpose must be no more than 5 percent above and no more than 10 percent below the weighted average of the rates of

interest on 30-year Treasury securities during the four-year period ending on the last day before the beginning of the plan year.

Notice 88-73, 1988-2 C.B. 383, provides guidelines for determining the weighted average interest rate. The following rates

were determined for plan years beginning in the month shown below.

For Plan Years Beginning in		30-Year Treasury Weighted Average	Permissible Range		
Month	Year		90%	to	105%
March	2013	3.55	3.19		3.72

#### MINIMUM PRESENT VALUE SEGMENT RATES

In general, the applicable interest rates under § 417(e)(3)(D) are segment rates

computed without regard to a 24-month average. Notice 2007-81 provides guidelines for determining the minimum present value segment rates. Pursuant to that notice, the minimum present value transi-

tional segment rates determined for February 2013 are as follows:

First Segment	Second Segment	Third Segment
0.99	3.82	5.02

#### DRAFTING INFORMATION

The principal author of this notice is Tony Montanaro of the Employee Plans,

Tax Exempt and Government Entities Division. Mr. Montanaro may be e-mailed at *RetirementPlanQuestions@irs.gov*.

**Table I**  
 Monthly Yield Curve for February 2013  
 Derived from February 2013 Data

Maturity	Yield								
0.5	0.31	20.5	4.73	40.5	5.06	60.5	5.18	80.5	5.24
1.0	0.48	21.0	4.75	41.0	5.06	61.0	5.18	81.0	5.24
1.5	0.65	21.5	4.76	41.5	5.07	61.5	5.18	81.5	5.24
2.0	0.80	22.0	4.77	42.0	5.07	62.0	5.18	82.0	5.24
2.5	0.93	22.5	4.78	42.5	5.07	62.5	5.19	82.5	5.24
3.0	1.06	23.0	4.80	43.0	5.08	63.0	5.19	83.0	5.24
3.5	1.19	23.5	4.81	43.5	5.08	63.5	5.19	83.5	5.25
4.0	1.34	24.0	4.82	44.0	5.09	64.0	5.19	84.0	5.25
4.5	1.50	24.5	4.83	44.5	5.09	64.5	5.19	84.5	5.25
5.0	1.67	25.0	4.84	45.0	5.09	65.0	5.19	85.0	5.25
5.5	1.86	25.5	4.85	45.5	5.10	65.5	5.20	85.5	5.25
6.0	2.05	26.0	4.86	46.0	5.10	66.0	5.20	86.0	5.25
6.5	2.25	26.5	4.87	46.5	5.10	66.5	5.20	86.5	5.25
7.0	2.45	27.0	4.88	47.0	5.11	67.0	5.20	87.0	5.25
7.5	2.65	27.5	4.89	47.5	5.11	67.5	5.20	87.5	5.25
8.0	2.84	28.0	4.89	48.0	5.11	68.0	5.20	88.0	5.25
8.5	3.03	28.5	4.90	48.5	5.12	68.5	5.21	88.5	5.26
9.0	3.20	29.0	4.91	49.0	5.12	69.0	5.21	89.0	5.26
9.5	3.36	29.5	4.92	49.5	5.12	69.5	5.21	89.5	5.26
10.0	3.52	30.0	4.93	50.0	5.13	70.0	5.21	90.0	5.26
10.5	3.66	30.5	4.94	50.5	5.13	70.5	5.21	90.5	5.26
11.0	3.79	31.0	4.95	51.0	5.13	71.0	5.21	91.0	5.26
11.5	3.90	31.5	4.95	51.5	5.14	71.5	5.22	91.5	5.26
12.0	4.01	32.0	4.96	52.0	5.14	72.0	5.22	92.0	5.26
12.5	4.10	32.5	4.97	52.5	5.14	72.5	5.22	92.5	5.26
13.0	4.19	33.0	4.97	53.0	5.14	73.0	5.22	93.0	5.26
13.5	4.26	33.5	4.98	53.5	5.15	73.5	5.22	93.5	5.26
14.0	4.33	34.0	4.99	54.0	5.15	74.0	5.22	94.0	5.26
14.5	4.39	34.5	4.99	54.5	5.15	74.5	5.22	94.5	5.27
15.0	4.44	35.0	5.00	55.0	5.15	75.0	5.23	95.0	5.27
15.5	4.48	35.5	5.01	55.5	5.16	75.5	5.23	95.5	5.27
16.0	4.52	36.0	5.01	56.0	5.16	76.0	5.23	96.0	5.27
16.5	4.56	36.5	5.02	56.5	5.16	76.5	5.23	96.5	5.27
17.0	4.59	37.0	5.02	57.0	5.16	77.0	5.23	97.0	5.27
17.5	4.62	37.5	5.03	57.5	5.17	77.5	5.23	97.5	5.27
18.0	4.64	38.0	5.03	58.0	5.17	78.0	5.23	98.0	5.27
18.5	4.66	38.5	5.04	58.5	5.17	78.5	5.23	98.5	5.27
19.0	4.68	39.0	5.04	59.0	5.17	79.0	5.24	99.0	5.27
19.5	4.70	39.5	5.05	59.5	5.17	79.5	5.24	99.5	5.27
20.0	4.72	40.0	5.05	60.0	5.18	80.0	5.24	100.0	5.27

## **Penalty Relief for Delayed 2012 Forms**

### **Notice 2013–24**

This notice provides transitional relief for additions to tax under section 6651(a)(2) of the Internal Revenue Code due to the delayed publication of some IRS forms relating to the 2012 tax year.

#### **BACKGROUND**

Generally, individuals, estates, and trusts are required to file income tax returns and pay any tax due by April 15; corporations and certain other entities must file returns and pay tax by March 15.

Section 6081 provides that the Secretary may grant a reasonable extension of time for filing any return, but, except in the case of taxpayers who are abroad, no such extension shall be for more than 6 months. To qualify for an extension, taxpayers must properly estimate their tax liability using any available information and report that tax liability on the extension application. An extension of time to file a return, however, does not extend the time to pay the tax and taxpayers generally must pay the tax by the original due date of the return.

Section 6651(a)(2) imposes an addition to tax for payments made after the due date

(determined with regard to any extension of time for payment) with respect to tax shown on a return. The section 6651(a)(2) addition to tax will not be imposed if the taxpayer shows that the failure was due to reasonable cause and not willful neglect.

On January 2, 2013, Congress enacted the American Taxpayer Relief Act of 2012 (ATRA), Pub. L. No. 112–240, 126 Stat. 2313. The ATRA affected a number of tax forms. Revising those forms required extensive programming and testing of IRS systems, which delayed the IRS's ability to release, accept, and process those forms. These delays may affect the ability of some taxpayers to timely estimate and pay their 2012 tax liability when requesting an extension to file.

#### **TRANSITIONAL RELIEF**

Generally, the IRS automatically assesses the section 6651(a)(2) addition to tax against taxpayers who pay late, and then it sends notice and demand for payment of the addition to tax. For each taxpayer who requests or has requested an extension to file a 2012 income tax return that includes one of the forms listed in Exhibit 1 of this notice, the IRS will deem the taxpayer to have demonstrated reasonable cause and lack of willful neglect, provided a good faith effort was

made to properly estimate the tax liability on the extension application, the estimated amount is paid by the original due date of the return, and any tax owed on the return is fully paid no later than the extended due date of the return. The IRS will abate any section 6651(a)(2) additions to tax assessed with respect to these 2012 income tax returns. When responding to the assessment notice, a taxpayer should submit a letter describing the taxpayer's eligibility for this relief, identifying which of the form(s) listed in Exhibit 1 of this notice was included with the taxpayer's return as filed, and referencing this notice by number [Notice 2013–24] to the address listed in the assessment notice.

Forms, instructions, and other tax assistance are available on *IRS.gov*. The IRS toll-free number for general tax questions is 1–800–829–1040.

#### **CONTACT INFORMATION**

The principal author of this notice is David W. Skinner of the Office of the Associate Chief Counsel (Procedure and Administration). For further information regarding this notice, contact Mr. Skinner at 202–622–4940 (not a toll-free call).

**EXHIBIT 1 – Delayed 2012 forms (available in February 2013 or the first week of March 2013)**

- Form 3800, *General Business Credit*
- Form 4136, *Credit for Federal Tax Paid on Fuels*
- Form 4562, *Depreciation and Amortization (Including Information on Listed Property)*
- Form 5074, *Allocation of Individual Income Tax to Guam or the Commonwealth of the Northern Mariana Islands (CNMI)*
- Form 5471, *Information Return of U.S. Persons With Respect to Certain Foreign Corporations*
- Form 5695, *Residential Energy Credits*
- Form 5735, *American Samoa Economic Development Credit*
- Form 5884, *Work Opportunity Credit*
- Form 6478, *Alcohol and Cellulosic Biofuel Fuels Credit (Including Second Generation Biofuel)*
- Form 6765, *Credit for Increasing Research Activities*
- Form 8396, *Mortgage Interest Credit*
- Form 8582, *Passive Activity Loss Limitations*
- Form 8820, *Orphan Drug Credit*
- Form 8834, *Qualified Plug-in Electric and Electric Vehicle Credit*
- Form 8839, *Qualified Adoption Expenses*
- Form 8844, *Empowerment Zone Employment Credit*
- Form 8845, *Indian Employment Credit*
- Form 8859, *District of Columbia First-Time Homebuyer Credit*
- Form 8863, *Education Credits (American Opportunity and Lifetime Learning Credits)*
- Form 8864, *Biodiesel and Renewable Diesel Fuels Credit*
- Form 8874, *New Markets Credit*
- Form 8900, *Qualified Railroad Track Maintenance Credit*
- Form 8903, *Domestic Production Activities Deduction*
- Form 8908, *Energy Efficient Home Credit*
- Form 8909, *Energy Efficient Appliance Credit*
- Form 8910, *Alternative Motor Vehicle Credit*
- Form 8911, *Alternative Fuel Vehicle Refueling Property Credit*
- Form 8912, *Credit to Holders of Tax Credit Bonds*
- Form 8923, *Mine Rescue Team Training Credit*
- Form 8932, *Credit for Employer Differential Wage Payments*
- Form 8936, *Qualified Plug-in Electric Drive Motor Vehicle Credit*

## **Part IV. Items of General Interest**

### **Announcement and Report Concerning Advance Pricing Agreements**

#### **Announcement 2013-17**

March 25, 2013

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 APA Program. The first report covered calendar years 1991 through 1999. Subsequent reports covered separately each calendar year 2000 through 2011. This fourteenth report describes the experience, structure, and activities of the APA Program during calendar year 2012. It does not provide guidance regarding the application of the arm's length standard.

As described in greater detail below, in the first quarter of calendar year 2012, the APA Program was moved from the Office of Chief Counsel and merged with that portion of the Office of the U.S. Competent Authority (USCA) that resolves transfer pricing cases under the mutual agreement procedures of the United States' bilateral income tax conventions. As the successor to the APA Program, the new Advance Pricing and Mutual Agreement (APMA) Program has prepared and finalized this report.

During 2012, the APMA Program saw immediate returns from the merger of functions, increased resources available, and processing efficiencies implemented throughout the year, and increased the number of APAs executed from 42 in 2011 to a single-year high of 140 in 2012. The average time to complete an APA decreased from 40.7 months in 2011 to 39.8 months in 2012, and for the first year in the program's history there were more APAs executed (140) than applications filed (126). It is expected that the average processing time for APAs will continue to decrease over the next few years as the APMA Program continues to use its increased resources to reduce the older inventory of pending cases and accelerate the processing of newer cases.

As part of the evolution of the APA Program into the APMA Program, those who have read this report in past years will notice significant changes in how the APMA Program is communicating its results for 2012 to Congress and the public. Sections describing the background and general procedures regarding APAs have been deleted, and readers are referred to the revenue procedures that currently govern APA submissions and the relevant Treasury regulations for the details previously included therein. Part I of the report summarizes the merger of programs and operations; Part II presents APMA program results, both in table and graphical format; and Part III includes general descriptions of various elements of the executed APAs, *e.g.*, transfer pricing methods used, types of transactions covered in APAs, and the countries with which the United States reached agreements.

Calendar year 2012 provided many challenges to the leadership and staff of both legacy APA and legacy USCA, but as will be seen below, the new APMA Program has achieved many of its goals for 2012 and expects to continue its progress in the years to come.

Richard J. McAlonan, Jr.  
Director, Advance Pricing and Mutual Agreement Program

**Part I. The APMA Program — Structure, Composition and Operation**  
[PUB. L. 106-170 § 521(b)(2)(A)]

The former APA Program was moved from the Office of Chief Counsel to the Office of Transfer Pricing Operations, Large Business and International Division of the IRS (TPO) in February of 2012 and combined with the USCA staff responsible for transfer pricing cases, thereby forming the Advance Pricing and Mutual Agreement (APMA) Program. The APMA Program Director, Richard McAlonan, joined the Program in May of 2012. Beginning in late 2010, the staffs of the APA Program and the USCA office began working more closely together in processing APAs, with USCA staff handling APAs from application to resolution, and APA Program staff analyzing and resolving double tax cases under the mutual agreement procedure (MAP) included in the U.S. bilateral income tax conventions.

### **Staffing Increases, Focus on Economists**

Beginning in mid-2011, the USCA office began a hiring process that continues to the present, to add both analysts (now called team leaders) and economists to the USCA (now APMA) staff. Overall staffing increased from a total of approximately 70 staff (analysts, team leaders and economists) and seven managers between the APA Program and the USCA office in early 2011, to a total of 92 team leaders and economists and 12 APMA managers at present. In particular the hiring focused on economists, with the addition of two economist managers and 20 economists drawn from both the private sector and the IRS field economist group. This focus on economist hiring was intended, among other things, to improve the ability of the IRS to develop APA positions expeditiously, and reduce the average time from submission to resolution. Further, by adding experienced transfer pricing economists to the team the APMA Program is creating a “deep bench,” that allows resources to be deployed strategically. By more than doubling the number of economists within APMA, and tripling the number of economist managers from one to three, the Program is better able to perform the proper level of analysis for every case, which in turn should continue to result in reduced processing times while maintaining the same high quality of analysis.

### **Impact of Merger, Office Move**

As with any organizational merger, the combination of the APA Program with the USCA office presented challenges. These challenges were heightened by the fact that Washington, DC personnel, which represents the largest cadre of APMA, also went through an office move in September. In addition, the rapid increase in headcount, including the addition of economists located in Chicago and New York, necessitated additional training as the merged organization began to develop and implement new processes for both APA and double tax cases.

### **Operating Efficiencies Include Elimination of “Handoffs”**

Despite the challenges noted above, the merger nonetheless created significant benefits, in addition to the positive impact of staffing increases noted above. One result of the merger that has paid immediate dividends in the processing of bilateral APAs is the elimination of two “handoffs” that existed under the legacy system. That is, before the merger a developed APA position was “handed off” from an APA team leader to a USCA analyst, the latter of whom would then discuss the case with the treaty partner. When the USCA office reached agreement with the treaty partner and entered into a mutual agreement under the treaty, that agreement was “handed off” from the USCA analyst back to the APA Director and team leader to draft the domestic APA.

After the merger, the team that develops the IRS position in the case is also responsible for discussing the case with the treaty partner, obtaining an agreement, and finalizing the APA with the taxpayer. This compression of functions eliminates inefficiencies, and also requires the team in a bilateral case to take the potential challenges or roadblocks that could be posed by the treaty partner into account when developing the U.S. position. This in turn is expected to also lead to a shortening of the time it takes to reach resolution once a case is set for discussion with the treaty partner.<sup>1</sup>

### **Summary, Look Ahead**

Although as of December 31, 2012, the APMA Program had been in existence for less than one year, the Program accomplished much during 2012. In addition to a significant increase in APA output, the recruitment and hiring of highly qualified and experienced team leaders and economists increases internal transfer pricing expertise, which in turn benefits the overall efforts of the Office of Transfer Pricing Operations. In 2013 the Program expects to release new revenue procedures governing both APA applications and MAP applications, and to replace the current revenue procedures that were released in 2006 and, in the case of APAs, supplemented in 2008. These revenue procedures will reflect the changes in structure, and also and more importantly, will be informed by the cumulative experience of more than twenty years of APA practice in the United States, which has produced more than eleven hundred unilateral and bilateral agreements since 1991.

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<sup>1</sup> In the past, no systematic effort was made to measure how much of the time from submission to agreement of a bilateral APA was spent on the discussions with treaty partners, but anecdotal evidence from the APMA Program’s experience with Japan, the treaty partner responsible for more than half of the bilateral APAs in 2012, suggests that there was a reduction in the number of meetings needed to reach an agreement in 2012, and this trend can be expected to continue.

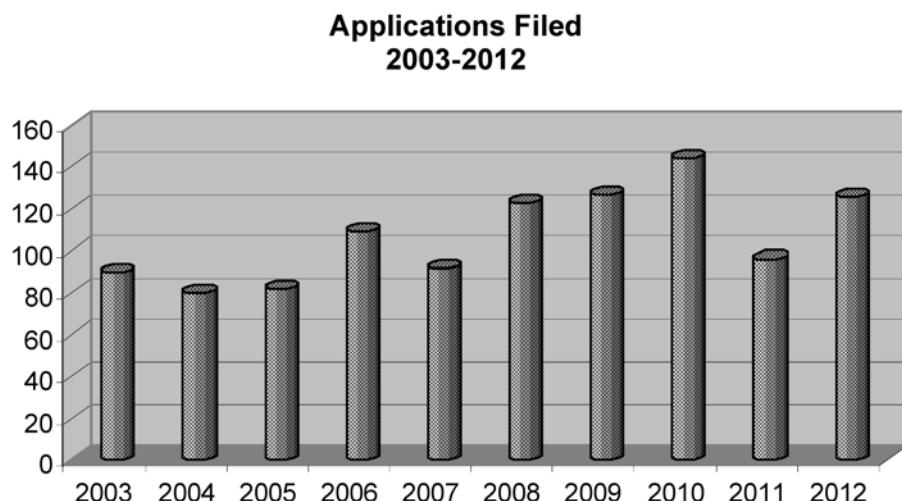
The model APA agreement, which was last revised significantly in 2009 and is currently under review for future changes, appears in this report as Appendix A. (See Pub. L. 106–170 § 521(b)(2)(B)). A list of primary APMA contacts is included as Appendix B.

**Part II. APMA Program Statistical Data**  
**[Pub. L. 106-170 § 521(b)(2)(C) and (E)]**

The statistical information required under § 521(b)(2)(C) and (E) is presented below, in either table or graphical format. The 126 APA applications received during 2012 represented a significant increase from 2011, when 96 applications were submitted, but short of the all-time high of 144 submissions received in 2010. With the additional resources and added efficiencies from its recent restructuring, APMA expects APAs to continue to be attractive to taxpayers and applications to continue to trend upwards in 2013.

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

	<b>Unilateral</b>	<b>Bilateral</b>	<b>Multilateral</b>	<b>Total</b>
Filed 1991–2011				1619 <sup>2</sup>
Filed in 2012	24	101	1	126
<b>Total Filed 1991–2012</b>				<b>1745</b>



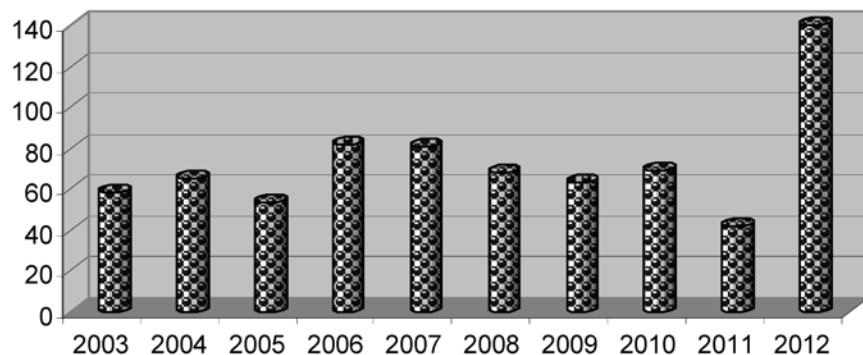
<sup>2</sup> The first APA Statutory Report, which compiled APA data from 1991–1999, did not report the cumulative number of applications for those years by submission type, so the cumulative totals before 2012 that include that data cannot be reported in that manner.

**Table 2: Executed and Pending APAs**

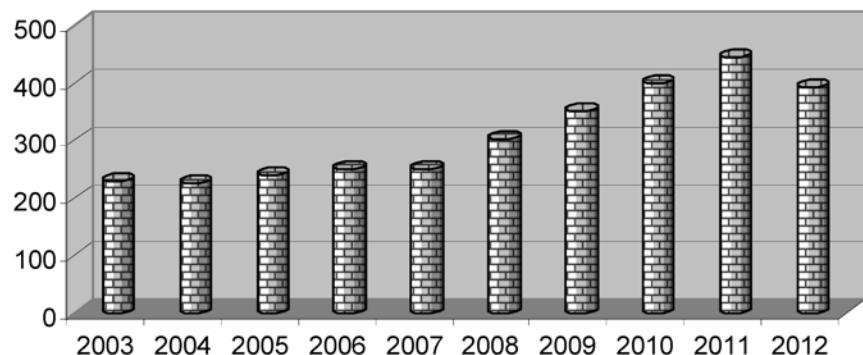
§ 521(b)(2)(C)(ii-vi)

	Unilateral	Bilateral	Multilateral	Total
Total Executed 1991–2011	413	589	13	1015
Total Executed in 2012	37	103	0	140
<b>Total Executed 1991–2012</b>	<b>450</b>	<b>692</b>	<b>13</b>	<b>1155</b>
<b>Total Pending</b>	<b>74</b>	<b>316</b>	<b>1</b>	<b>391</b>
<i>Renewals Executed in 2012</i>	28	55	0	83
<i>Renewals Pending</i>	38	143	1	182

**APAs Executed  
2003-2012**



**Pending APAs  
2003-2012**



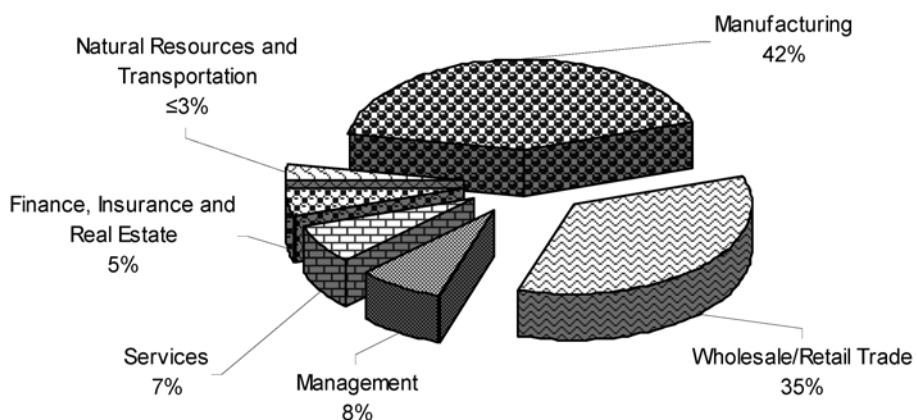
**Table 3: APAs Revoked or Cancelled and Withdrawn**  
 § 521(b)(2)(C)(vii)

	Unilateral	Bilateral	Multilateral	Total
Revoked or Cancelled 2012	0	0	0	0
<b>Total Revoked or Cancelled 1991–2012</b>				<b>11</b>
APA Applications Withdrawn in 2012	2	4	0	6
<b>Total APA Applications Withdrawn 1991–2012</b>				<b>180</b>

**Table 4: APAs Finalized or Renewed by Industry**  
 § 521(b)(2)(C)(viii)

Industry	
Manufacturing	59
Wholesale/Retail Trade	49
Management	11
Services	10
Finance, Insurance and Real Estate	7
Natural Resources and Transportation	4

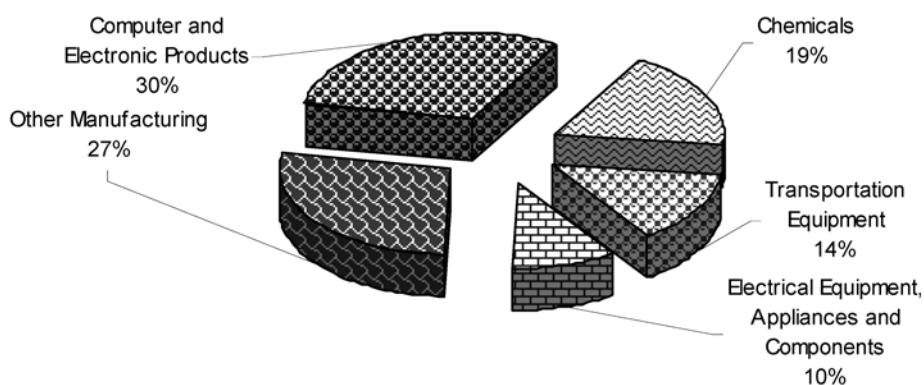
**APAs Finalized or Renewed by Industry**



**Table 4a: Manufacturing APAs Finalized or Renewed**

Manufacturing	
Computer and Electronic Products	18
Chemicals	11
Transportation Equipment	8
Electrical Equipment, Appliances and Components	6
Other Manufacturing	16

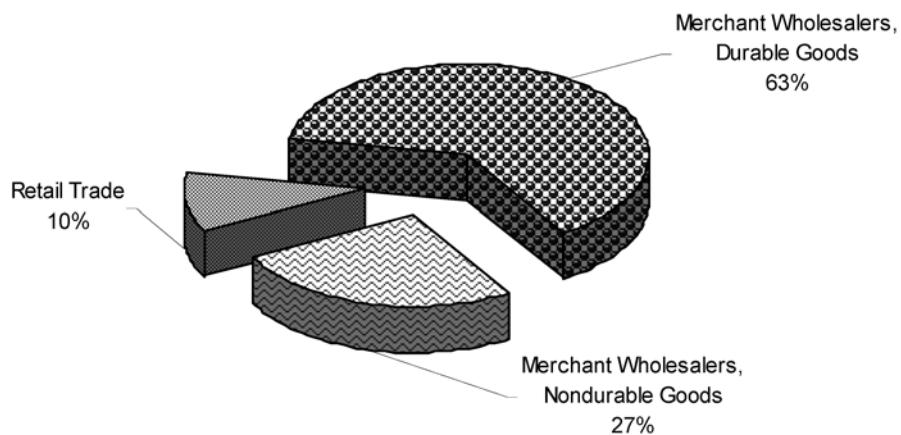
**Manufacturing APAs Finalized or Renewed**



**Table 4b: Wholesale/Retail Trade APAs Finalized or Renewed**

Wholesale/Retail Trade	
Merchant Wholesalers, Durable Goods	31
Merchant Wholesalers, Nondurable Goods	13
Retail Trade	5

**Wholesale/Retail Trade APAs Finalized or Renewed**

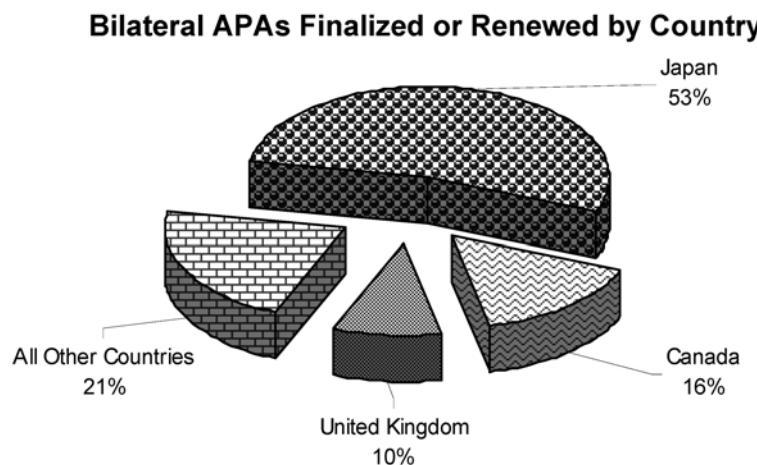


**Part III. General Descriptions of APAs Executed in 2012**  
[Pub. L. 106-170 § 521(b)(2)(D)]

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

As in prior years, more than half of the APAs executed in 2012 involved transactions between foreign parents and U.S. subsidiaries. In 2012 the percentages were approximately 75 percent foreign parents and 25 percent U.S. parents; in 2011 those percentages were 61 and 39, respectively.

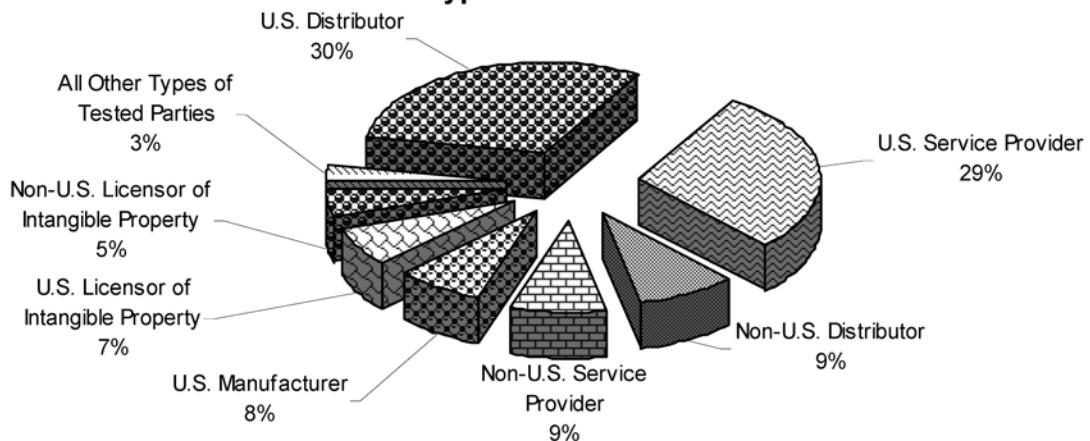
As shown in the graph below, of the total number of bilateral APAs executed in 2012, more than half were agreed between the United States and Japan, with the other two treaty countries with significant activity being Canada and the United Kingdom. As the IRS gains additional experience with other treaty partners it would be expected that the relative representation of other treaty partners will increase over time.



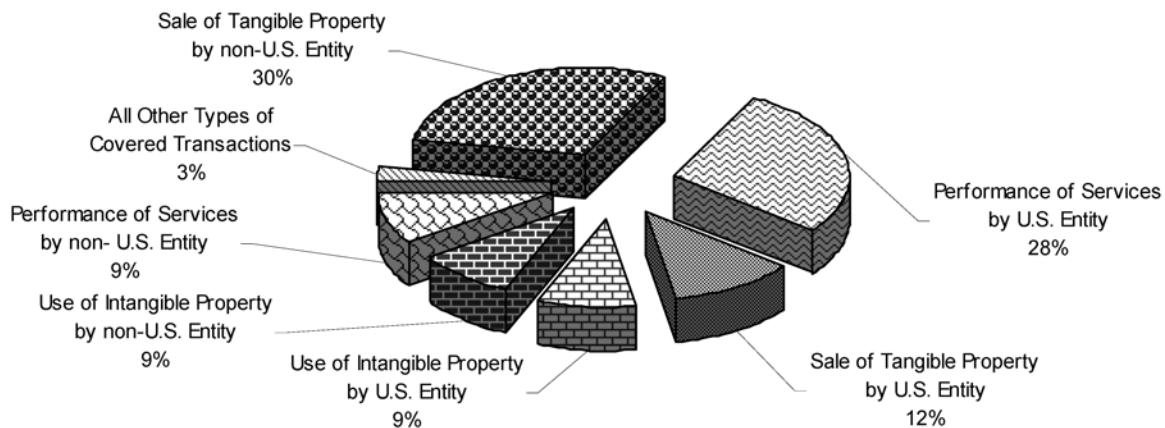
**Tested Parties, Covered Transactions, Functions and Risks**  
§ 521(b)(2)(D)(ii-iii)

Tested Parties and Covered Transactions: As shown in the following graph, and consistent with prior years, the tested parties included in APAs executed in 2012 fell primarily into two categories, *i.e.*, U.S. distributors and U.S. service providers, each of which represents approximately 30 percent of the total. No other single type of entity represents even ten percent of the total. Consistent with this result, more than 40 percent of the transactions covered in APAs executed in 2012 involved transfers of tangible goods, and close to 40 percent involved the provision of services. Most of the rest of the transactions involved the use of intangible property.

### Types of Tested Parties



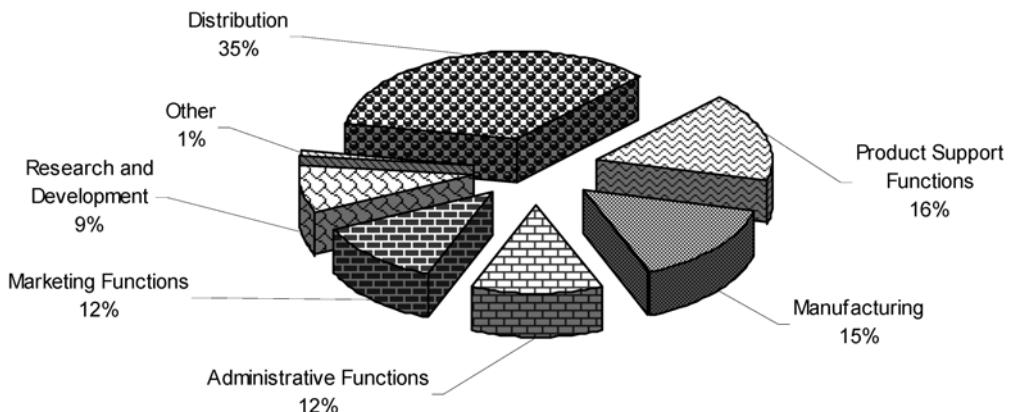
### Types of Covered Transactions



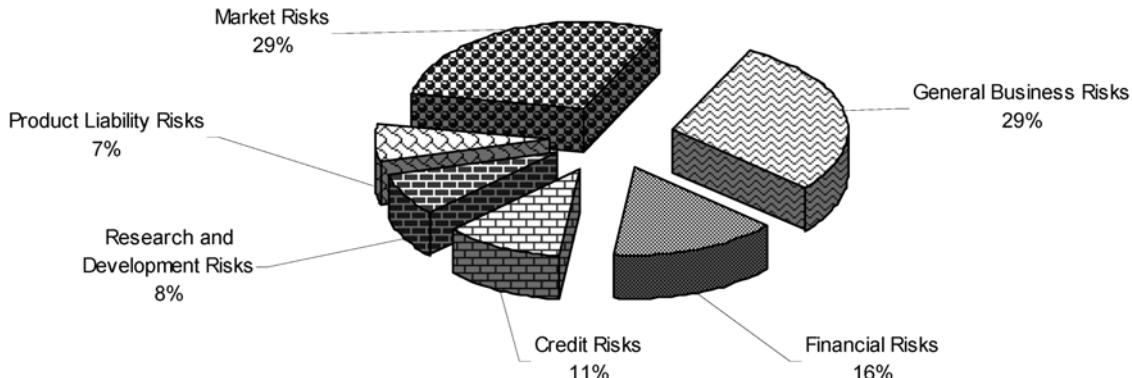
Although a high percentage of agreements involved tangible goods and services transactions, the IRS has successfully completed numerous APAs involving intangibles. While complex transactions involving intangibles may be more challenging in some cases than other types of transactions, and represent a smaller percentage of the APA inventory than the other types of transactions, the IRS will continue to seek opportunities to work with taxpayers and treaty partners to provide prospective certainty for such transactions wherever appropriate.

**Functions and Risks:** As shown in the graphs below, most of the functions and risks of the tested parties in the APAs executed in 2012 were routine functions and risks, with more than 70 percent of the cases involving distribution or related functions, e.g., marketing and product support. Similarly, the risks borne by the tested parties were primarily standard business risks, e.g., market risk and credit risk. A small percentage of the tested parties performed more complex or high value functions such as manufacturing and research and development, and a similarly small percentage of the tested parties bore non-routine and potentially significant risks such as product liability or research and development risk.

### Tested Party Functions



### Tested Party Risks

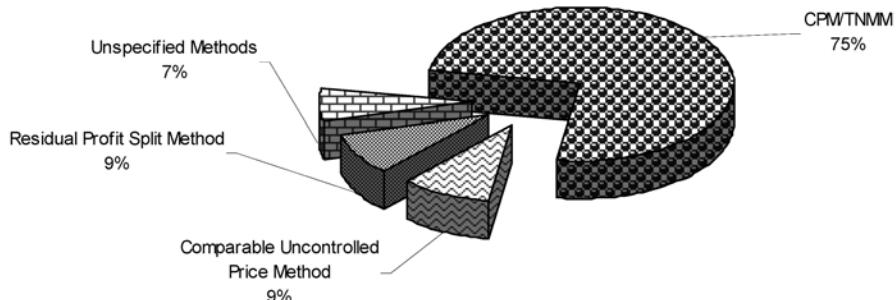


#### **Transfer Pricing Methods Used**

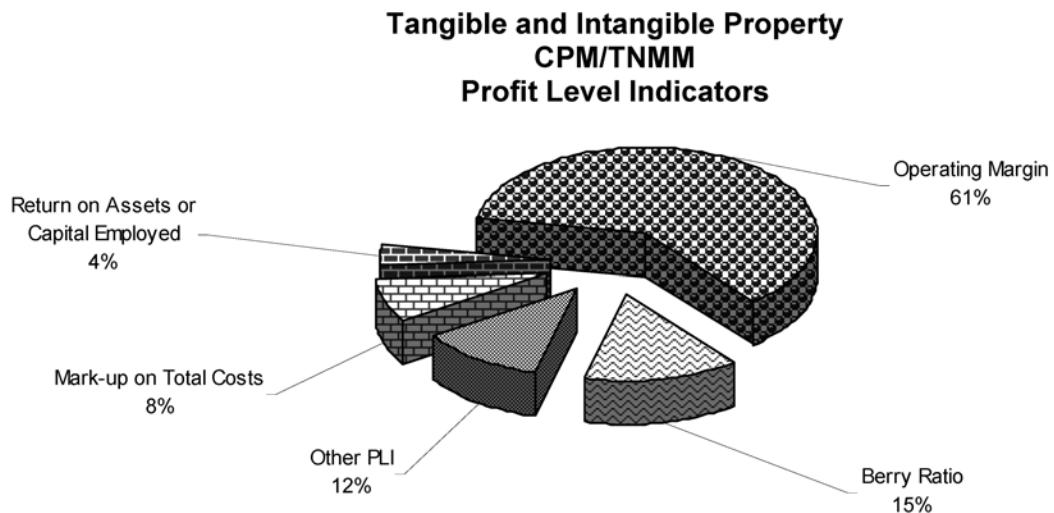
§ 521(b)(2)(D)(iv)

As shown on the following graphs, and consistent with prior years, the primary transfer pricing method used for transfers of both tangible and intangible property in APAs executed in 2012 was the Comparable Profits Method/Transactional Net Margin Method (CPM/TNMM).

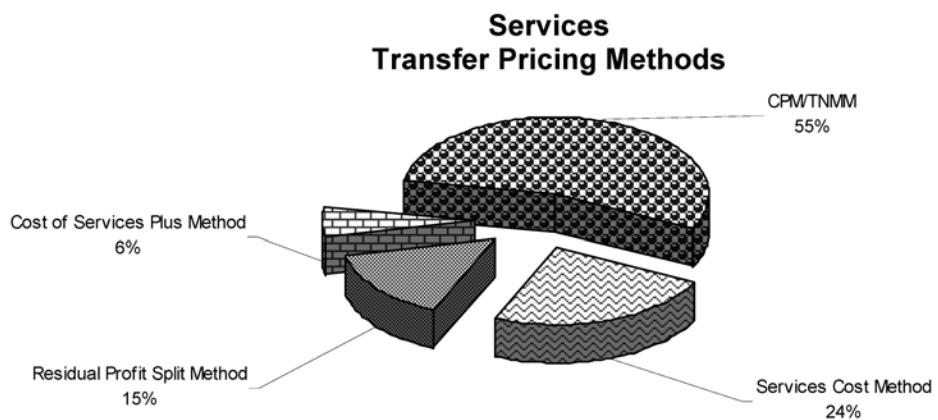
### Tangible and Intangible Property Transfer Pricing Methods



Regarding the various profit level indicators typically used to benchmark results for transfers of property under the CPM/TNMM, the Operating Margin, defined<sup>3</sup> as the ratio of operating profits to sales, accounts for more than 60 percent of the cases, while the Berry Ratio, defined<sup>4</sup> as the ratio of gross profit to operating expenses, accounts for approximately 15 percent of the cases. Other profit level indicators, in the aggregate, account for less than ten percent of the cases.

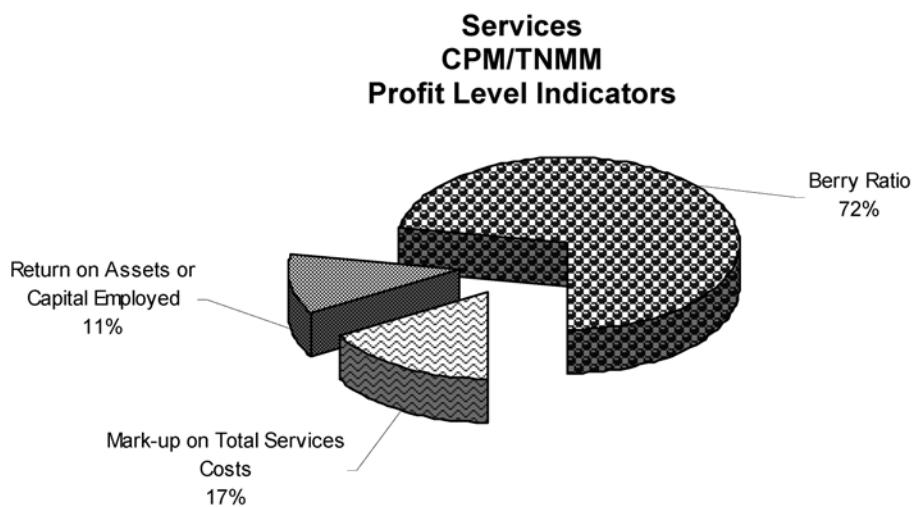


For services transactions, while the CPM/TNMM still predominates, a significant percentage of cases involving services used the Services Cost Method or the Cost of Services Plus Method. The Services Cost Method evaluates whether the amount charged for certain services is arm's length with reference to the total services costs; the Cost of Services Plus Method determines whether prices are arm's length by reference to the gross services profit markup in comparable uncontrolled transactions. When the CPM/TNMM is used to benchmark services transactions, the Berry Ratio is the most frequently used PLI.



<sup>3</sup> Treas. Reg. § 1.482-5(b)(4)(ii)(A).

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



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

For the majority of the APAs executed in 2012 where external comparables data was used in the analysis, the data source for comparables was Standard and Poors' Compustat database; the following other sources were also used in appropriate cases, *e.g.*, where the tested party was not the U.S. entity:

Additional Sources of Comparable Data	
Disclosure	Mergent
Moody's	Japan Company Handbook
Worldscope	GlobalVantage
Amadeus	OneSource
Jade	

Regarding selection criteria, in the majority of cases the selection process included consideration of whether the comparable company was comparable regarding its functions, risks and industry. Also considered in some cases was the existence of comparable intangibles or comparable products.

Regarding adjustments, the standard balance sheet adjustments covered by Treas. Reg. § 1.482–1(d) and –5(c), including adjustments to payables, receivables and inventory, were made in the majority of cases, and approximately 30 percent of the cases also involved an adjustment to plant, property and equipment. In addition, where appropriate, accounting adjustments were made to convert from LIFO to FIFO inventory accounting, and a small number of the cases also involved the accounting reclassification of expenses, *e.g.*, from COGS to operating expenses, or from operating expenses to extraordinary items.

**Ranges, Targets and Adjustment Mechanisms**

**§ 521(b)(2)(D)(viii-ix)**

The majority of the transactions covered in APAs executed in 2012 target an interquartile range as described in Treas. Reg. § 1.482–1(e)(2)(iii)(C). A substantial minority of those transactions also include a specific point within the CPM/TNMM range that is not a floor or ceiling, but that represents either an interim or a final target, and in a few cases the CPM/TNMM does not set a range, but sets either a floor or a ceiling, *i.e.*, an upper or lower bound for the results of the particular transaction. Where the transaction involves a royalty payment for the use of intangible property both points and ranges have been used, and in some cases where the covered transaction is the payment of a royalty based solely on external royalty agreements, a secondary method, *e.g.*, a test of the payor's post-royalty operating margin, has been imposed. The testing periods set in the APAs executed in 2012 included: a) a single year; b) the term of the APA not including any rollback years; or c) the term of the APA including rollback years.

APAs executed in 2012 included a number of mechanisms for making adjustments to tested party results when they are outside the range or point required by the APA. Among the mechanisms included in 2012, which apply to the APA term and/or rollback years, were: a) an adjustment to the closest edge of the range applied to the results of a single year; b) adjustment to the closest edge of the range applied to the results over the APA term; c) adjustment to the specified point or royalty rate; and d) adjustment to the median of the range for a single year. For bilateral APAs, compensating adjustments that are required under the terms of the APA can sometimes be subject to further discussions between the APMA team and its counterpart in the foreign jurisdiction, and the amount and/or timing of the compensating adjustment can be the subject of an additional agreement between the countries.

### **Critical Assumptions**

#### **§ 521(b)(2)(D)(v)**

The model APA used by the IRS (included as Appendix A of this report) includes a standard critical assumption that there will be no material changes to the taxpayer's business or to its tax or financial accounting practices during the APA term, and all the APAs executed in 2012 included that standard critical assumption. A few bilateral cases have included critical assumptions tied to either the taxpayer's profitability in a certain year or over the term of the APA, or to the amount of non-covered transactions as a percentage of the taxpayer's revenue. Under § 11.03(2) of Rev. Proc. 2006–9, the IRS may require the taxpayer to show compliance with all the critical assumptions included in the APA. Taxpayers must report to the IRS the failure of a critical assumption, including the event or events causing such failure, and under § 11.06(3) of Rev. Proc. 2006–9, unless the APMA Director agrees to modify the APA, the APA is cancelled. The IRS did not cancel any APAs in 2012 due to the failure of a critical assumption.

### **Term Lengths for APAs**

#### **§ 521(b)(2)(D)(x)**

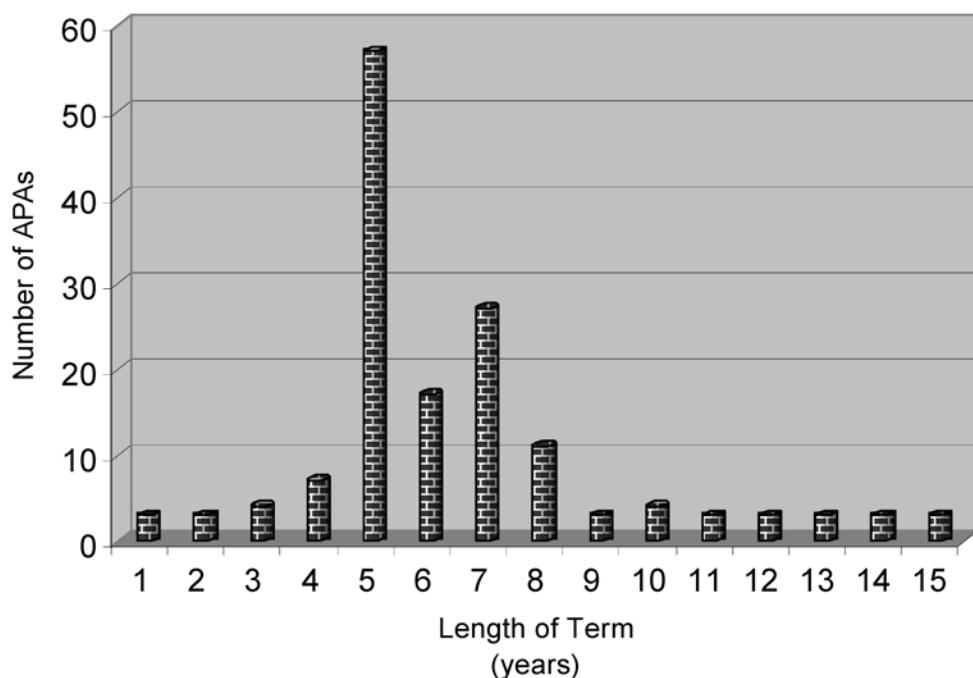
As described in § 4.07 of Rev. Proc. 2006–9, taxpayers should request at least a five-year term in their APA submissions, although the appropriate APA term is decided on a case-by-case basis. Of the APAs executed in 2012, almost half had five-year terms, and 80 percent had terms of between five and eight years. For APAs with terms of between six and eight years, a substantial number of those 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 taxpayer's request) in order to ensure a reasonable amount of prospectivity in the APA term. In 2012, ten percent of the APAs included terms exceeding nine years. These longer-than-normal terms were agreed based on the particular circumstances of those cases, and it is expected that the instances of APA terms exceeding 9 years will continue to be rare in future years.

**Table 5: Term Lengths (Including Rollback Years)**

Term Length	Number of APAs
1	≤ 3
2	≤ 3
3	4
4	7
5	57
6	17
7	27
8	11
9	≤ 3
10	4
11	≤ 3
12	0
13	≤ 3
14	≤ 3
15	≤ 3
20	≤ 3
Average	6 years

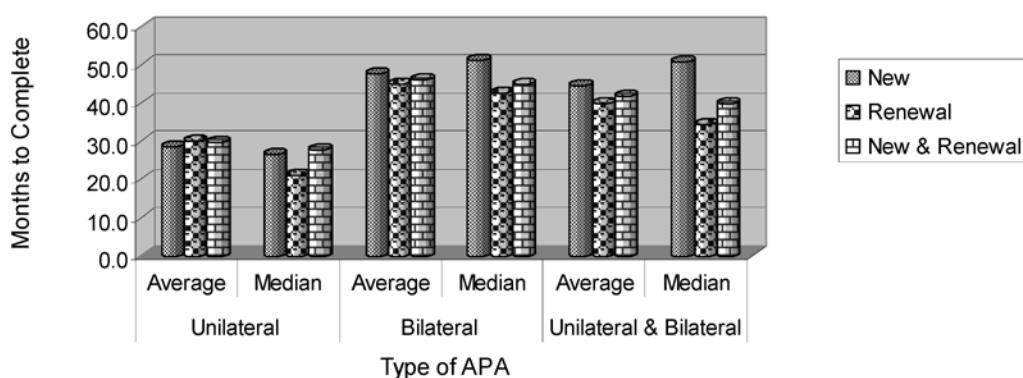
**Amount of Time Taken to Complete New and Renewal APAs****§ 521(b)(2)(E)**

As noted in the introduction to this report, the average time taken to complete the 140 APAs executed in 2012 was slightly less than the average time taken in 2011, and the IRS expects this average processing time to continue to go down as a result of the increased resources dedicated to the program in 2011 and 2012 and continued process improvements.



**Table 6: Months to Complete New and Renewal APAs**  
 § 521(b)(2)(E)

	Unilateral		Bilateral		Unilateral & Bilateral	
	Average	Median	Average	Median	Average	Median
New	28.4	26.5	47.5	51.2	44.5	50.6
Renewal	30.1	20.8	44.8	42.4	39.8	34.5
New & Renewal	29.7	27.8	46.0	44.9	41.7	39.8



## **Efforts to Ensure Compliance with APAs**

### **§ 521(b)(2)(F)**

As described in § 11.01 of Rev. Proc. 2006–09, APA taxpayers are required to file annual reports to demonstrate compliance with the terms and conditions of the APA. The filing and review of annual reports is a critical part of the APA process. Through annual report review, the APMA Program monitors taxpayer compliance with the APA on a contemporaneous basis. Annual report review provides current information on the success or problems associated with the various Transfer Pricing Methods (TPMs) adopted in the APA process.

All reports received by the APMA Program are assigned to a designated APMA team leader or economist. Whenever possible, annual report reviews are assigned to the team leader who worked the case, or another staff member who is already familiar with the relevant facts and terms of the agreement. Other team leaders and economists may assist the assigned team leader as well. Once received by the APMA Program, the annual report is also sent to the field personnel with exam jurisdiction over the taxpayer. The field personnel conduct a parallel compliance review, and work with APMA personnel to resolve any questions or problems that might arise.

## **Nature of Documentation Required in Annual Report**

### **§ 521(b)(2)(D)(xi)**

APAs executed in 2012 required that taxpayers provide various documents with their annual reports, depending on the facts of the case. While not every annual report will include every one of the documents listed below (*e.g.*, where no compensating adjustment occurs no documentation is required) the documents listed are required where the facts demonstrate a need for the document.

1.	Statement identifying all material differences between Taxpayer's business operations during APA Year and description of Taxpayer's business operations contained in Taxpayer's request for APA. If there have been no such material differences, a statement to that effect.
2.	Statement of all material changes in the 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.	Description of any failure to meet Critical Assumptions. If there has been none, a statement to that effect.
4.	Copy of the APA
5.	Financial analysis demonstrating Taxpayer's compliance with TPM.
6.	Organizational chart
7.	Any change to the taxpayer notice information in section 14 of the APA.
8.	The amount, reason for, and financial analysis of any compensating adjustment under Paragraph 4 of Appendix A and Rev. Proc. 2006–9, § 11.02(3), 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 the Taxpayer's group that is relevant to the APA.
9.	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.
10.	Financial Statements and any necessary account detail to show compliance with the TPM, with a copy of the opinion from an independent CPA or other documentation required by paragraph 5(f) of the APA.
11.	Where required by paragraph 5(f) of the APA, certified public accountant's opinion that financial statements present fairly the financial position of Taxpayer and the results of its operations, in accordance with a foreign GAAP.
12.	Where applicable, financial statements as prepared in accordance with a foreign GAAP
13.	Various work papers
14.	Where applicable, certified public accountant's review of financial statements

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

In appropriate cases, APAs may provide specific approaches for dealing with currency risk, such as adjustment mechanisms and/or critical assumptions. In 2012 very few executed APAs included either adjustment mechanisms or critical assumptions regarding currency or other similar risks, and most of the cases that did so involved bilateral agreements with Japan, which has experienced significant, extreme currency fluctuations over the last several years.

**APPENDIX A — Model APA (based on Rev. Proc. 2006-9)**  
[§ 521(b)(2)(B)]

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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: \_\_\_\_\_, 20\_\_\_\_

Jane Doe  
Sr. Vice President (Taxes)

**IRS**

By: \_\_\_\_\_

Date: \_\_\_\_\_, 20\_\_\_\_

Richard J. McAlonan, Jr.  
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 Regulations 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 Regulations 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.]*

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**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 was elected pursuant to paragraph 5 of Appendix A and Revenue Procedure 2006-09, 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 2006–09, section 11.01(6) and (7).

**APPENDIX D**  
**DEFINITIONS**

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

<b>Term</b>	<b>Definition</b>
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 Regulations 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.
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:</i> For each taxable year, the “return” that Taxpayer must “make” in accordance with I.R.C. section 6031.}
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 below and on the next page is a required APA Record. The APMA 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 Large Business and International Division Transfer Pricing Operations Advance Pricing and Mutual Agreement Program</b>	APA no. _____ Team Leader _____ Economist _____ Intl Examiner _____
<p><b>APA Information</b></p> <p>Taxpayer Name: _____</p> <p>Taxpayer EIN: _____ NAICS: _____</p> <p>APA Term: Taxable years ending _____ to _____.</p> <p>Original APA [ ] Renewal APA [ ]</p> <p>Annual Report due dates: _____, 20____ for all APA Years through APA Year ending in 20____; for each APA Year thereafter, on _____ [month and day] immediately following the close of the APA Year.</p> <p>Principal foreign country(ies) involved in covered transaction(s): _____</p> <p>Type of APA: [ ] unilateral [ ] bilateral with _____</p> <p>Tested party is [ ] US [ ] foreign [ ] both</p> <p>Approximate dollar volume of covered transactions (on an annual basis) involving tangible goods and services:</p> <p>[ ] N/A [ ] &lt;\$50 million [ ] \$50–100 million [ ] \$100–250 million [ ] \$250–500 million [ ] &gt;\$500 million</p> <p>APA tests on (check all that apply): [ ] annual basis [ ] multi-year basis [ ] term basis</p> <p>APA provides (check all that apply) a: [ ] range [ ] point [ ] floor only [ ] ceiling only [ ] other _____</p> <p>APA provides for adjustment (check all that apply) to: [ ] nearest edge [ ] median [ ] other point</p>		

**APA Annual  
Report  
Information**  
(to be completed  
by the Taxpayer)

APA date executed: \_\_\_\_\_, 20\_\_\_\_\_  
 This APA Annual Report Summary is for APA Year(s) ending in 20\_\_\_\_ and was filed on  
 \_\_\_\_\_, 20\_\_\_\_\_

Check here [ ] if Annual Report was filed after original due date but in accordance with extension.

Has this APA been amended or changed? [ ] yes [ ] no      Effective Date: \_\_\_\_\_

Has Taxpayer complied with all APA terms and conditions? [ ] yes [ ] no

Were all the critical assumptions met? [ ] yes [ ] no

Has a Primary Compensating Adjustment been made in any APA Year covered by this Annual Report?  
 [ ] yes [ ] no      If yes, which year(s): 20\_\_\_\_\_

Have any necessary Secondary Compensating Adjustments been made? [ ] yes [ ] no

Did Taxpayer elect APA Revenue Procedure treatment? [ ] yes [ ] no

Any change to the entity classification of a party to the APA? [ ] yes [ ] no

Taxpayer notice information contained in the APA remains unchanged? [ ] yes [ ] no

Taxpayer's current US principal place of business: (City, State) \_\_\_\_\_

**APA Annual  
Report  
Checklist of  
Key Contents**  
(to be completed  
by the Taxpayer)

Financial analysis reflecting TPM calculations	[ ] yes [ ] no
Financial statements showing compliance with TPM(s)	[ ] yes [ ] no
Schedule M-1 or M-3 book-tax differences	[ ] yes [ ] no
Current organizational chart of relevant portion of world-wide group	[ ] yes [ ] no
Attach copy of APA	[ ] yes [ ] no
Other APA records and documents included:	

**Contact  
Information**

Authorized Representative	Phone Number	Affiliation and Address

## Appendix B — APMA Contacts

<b>DIRECTOR AND DEPUTY</b>			
Director	McAlonan, Richard	202-283-8594	<i>richard.j.mcalonanjr@irs.gov</i>
Deputy Director	Masuda, Tina	202-283-8700	<i>tina.b.masuda@irs.gov</i>
<b>SPECIAL PROJECTS &amp; ADMINISTRATION</b>			
Senior Manager	Mantegani, Barbara	202-283-2202	<i>barbara.j.mantegani@irs.gov</i>
<b>GROUP 1 — WASHINGTON, DC</b> <b>China, India, Indonesia, Japan, Korea &amp; Thailand</b>			
Senior Manager	O'Bryan, Ann	202-283-8364	<i>ann.w.obryan@irs.gov</i>
<b>GROUP 2 — WASHINGTON, DC</b> <b>DC &amp; New York Economists</b>			
Senior Manager	Kwiat, Russell	202-283-8549	<i>russell.j.kwiat@irs.gov</i>
<b>GROUP 3 — WASHINGTON, DC</b> <b>Australia, Germany, Israel, Kazakhstan, Netherlands, New Zealand, Russia &amp; Ukraine</b>			
Senior Manager	Cohen, Judith	202-283-8402	<i>judith.c.cohen@irs.gov</i>
<b>GROUP 4 — SAN FRANCISCO, CA</b> <b>Japan &amp; South Africa</b>			
Senior Manager	Rock, Peter	415-547-3776	<i>peter.c.rock@irs.gov</i>
<b>GROUP 5 — WASHINGTON, DC</b> <b>Austria, Belgium, Canada &amp; Italy</b>			
Senior Manager	Marion, David	202-283-8396	<i>david.marion@irs.gov</i>
<b>GROUP 7 — WASHINGTON, DC</b> <b>Denmark, Ireland, Norway, Sweden, Switzerland &amp; UK</b>			
Senior Manager	Hughes, John	202-283-8714	<i>john.c.hughes@irs.gov</i>
<b>GROUP 8 — WASHINGTON, DC</b> <b>Argentina, Canada, Caribbean, Jamaica, Mexico, Portugal, Puerto Rico, Spain &amp; Venezuela</b>			
Senior Manager	Wood, Kenneth	202-283-0893	<i>kenneth.w.wood@irs.gov</i>
<b>GROUP 9 — WASHINGTON, DC</b> <b>Canada, France, Greece, Hungary, Romania &amp; Turkey</b>			
Senior Manager	Fouts, Patricia	202-283-8301	<i>patricia.a.fouts@irs.gov</i>
<b>GROUP 10 — SAN FRANCISCO, CA</b> <b>Guam, Japan, Morocco &amp; Philippines</b>			
Senior Manager	Johnson, Fred	415-837-6682	<i>fred.c.johnson@irs.gov</i>
<b>GROUP 11 — WASHINGTON, DC</b> <b>DC &amp; Chicago Economists</b>			
Senior Manager	Dhawale, Hareesh	202-283-8331	<i>hareesh.dhawale@irs.gov</i>
<b>GROUP 12 — LAGUNA NIGUEL, CA</b> <b>Laguna Niguel &amp; San Francisco Economists</b>			
Senior Manager	Thayer, Victor	949-360-3435	<i>victor.e.thayer@irs.gov</i>

As of March 25, 2013

## **Taxable Medical Devices; Correction**

### **Announcement 2013-23**

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Correction to final regulations.

SUMMARY: This document contains corrections to final regulations (T.D. 9604, 2012-52 I.R.B. 730) that were published in the **Federal Register** on Friday, December 7, 2012 (77 FR 72924). The final regulations provide guidance on the excise tax imposed on the sale of certain medical devices, enacted by the Health Care and Education Reconciliation Act of 2010 in conjunction with the Patient Protection and Affordable Care Act.

DATES: This correction is effective on March 13, 2013, and is applicable after December 31, 2012.

FOR FURTHER INFORMATION CONTACT: Natalie Payne, Michael Beker, or Stephanie Bland, at (202) 622-3130 (not a toll-free number).

#### **SUPPLEMENTARY INFORMATION:**

##### **Background**

The final regulations (T.D. 9604) that are the subject of this correction is under section 4191 of the Internal Revenue Code.

##### **Need for Correction**

As published, the final regulations (T.D. 9604) contain errors that may prove to be misleading and are in need of clarification.

##### **Correction of Publication**

Accordingly, the final regulations (T.D. 9604), that are the subject of FR Doc. 2012-29628, are corrected as follows:

1. On page 72925, column 1, in the preamble, under the paragraph heading "Background", second full paragraph of the column, lines 2 through 9, the language "regulations identified two issues that the IRS and the Treasury Department will study further and on which the IRS and the Treasury Department have requested additional comments. Those issues are discussed later in this preamble.

Comments with regard to those issues should be submitted in" is corrected to read "regulations identified one issue that the IRS and the Treasury Department will study further and on which the IRS and the Treasury Department have requested additional comments. That issue is discussed later in this preamble. Comments with regard to that issue should be submitted in".

2. On page 72926, column 2, in the preamble, under the paragraph heading "Humanitarian Use Devices", line 6 from the bottom of the column, the language "excluding HUDs from the definition of" is corrected to read "excluding HUDs from the definition of a".

3. On page 72927, column 3, under the paragraph heading "Nonexclusivity of Factors", line 4 from the bottom of the column, the language "the final regulations include seven" is corrected to read "the final regulations include eight"

4. On page 72928, column 2, under the paragraph heading "Cost", line 6 from the bottom of the column, the language "used in hospitals, doctors offices and" is corrected to read "used in hospitals, doctors' offices and".

5. On page 72929, column 2, under the paragraph heading "Documents Submitted for FDA Notification or Approval", line 3 from the top of the column, the language "by the general public for individual use." is corrected to read "by the general public at retail for individual use."

6. On page 72929, column 3, under the paragraph heading "Capped Rental Devices", first full paragraph of the column, line 2, the language "in consultation with the Center for" is corrected to read "in consultation with the Centers for".

7. On page 72930, column 2, under the paragraph heading "A. Proposed Regulations", line 6, the language "of taxable medical device to the FDA's" is corrected to read "of a taxable medical device to the FDA's".

8. On page 72931, column 1, under the paragraph heading "Installment Sales, Leases, and Long-Term Contracts", line 3 from the bottom of the column, the language "Payments made pursuant to a contract" is corrected to read "Payments made on or after January 1, 2013, pursuant to a contract".

9. On page 72932, column 2, under the paragraph heading "Consolidated Form

637 Registration", line 3, the language "effectuate tax-free sales. Several" is corrected to read "effectuate tax-free sales for further manufacture or export. Several".

LaNita VanDyke,  
*Chief, Publications and  
Regulations Branch,  
Legal Processing Division,  
Associate Chief Counsel  
(Procedure and Administration).*

(Filed by the Office of the Federal Register on March 12, 2013, 8:45 a.m., and published in the issue of the Federal Register for March 13, 2013, 78 FR. 15877)

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## **Announcement of Disciplinary Sanctions From the Office of Professional Responsibility**

### **Announcement 2013-26**

The Office of Professional Responsibility (OPR) announces recent disciplinary sanctions involving attorneys, certified public accountants, enrolled agents, enrolled actuaries, enrolled retirement plan agents, and appraisers. These individuals are subject to the regulations governing practice before the Internal Revenue Service (IRS), which are set out in Title 31, Code of Federal Regulations, Part 10, and which are published in pamphlet form as Treasury Department Circular No. 230. The regulations prescribe the duties and restrictions relating to such practice and prescribe the disciplinary sanctions for violating the regulations.

The disciplinary sanctions to be imposed for violation of the regulations are:

**Disbarred from practice before the IRS**—An individual who is disbarred is not eligible to represent taxpayers before the IRS.

**Suspended from practice before the IRS**—An individual who is suspended is not eligible to represent taxpayers before the IRS during the term of the suspension.

**Censured in practice before the IRS**—Censure is a public reprimand. Unlike disbarment or suspension, censure does not affect an individual's eligibility to represent taxpayers before the IRS, but OPR may subject the individual's future representations to conditions designed to promote high standards of conduct.

**Monetary penalty**—A monetary penalty may be imposed on an individual

who engages in conduct subject to sanction or on an employer, firm, or entity if the individual was acting on its behalf and if it knew, or reasonably should have known, of the individual's conduct.

**Disqualification of appraiser**—An appraiser who is disqualified is barred from presenting evidence or testimony in any administrative proceeding before the Department of the Treasury or the IRS.

Under the regulations, attorneys, certified public accountants, enrolled agents, enrolled actuaries, and enrolled retirement plan agents may not assist, or accept assistance from, individuals who are suspended or disbarred with respect to matters constituting practice (*i.e.*, representation) before the IRS, and they may not aid or abet suspended or disbarred individuals to practice before the IRS.

Disciplinary sanctions are described in these terms:

**Disbarred by decision after hearing, Suspended by decision after hearing, Censured by decision after hearing, Monetary penalty imposed after hearing, and Disqualified after hearing**—An administrative law judge (ALJ) conducted an evidentiary hearing upon OPR's complaint alleging violation of the regulations and issued a decision imposing one of these sanctions. After 30 days from the issuance of the decision, in the absence of an appeal, the ALJ's decision became the final agency decision.

**Disbarred by default decision, Suspended by default decision, Censured by**

**default decision, Monetary penalty imposed by default decision, and Disqualified by default decision**—An ALJ, after finding that no answer to OPR's complaint had been filed, granted OPR's motion for a default judgment and issued a decision imposing one of these sanctions.

**Disbarment by decision on appeal, Suspended by decision on appeal, Censured by decision on appeal, Monetary penalty imposed by decision on appeal, and Disqualified by decision on appeal**—The decision of the ALJ was appealed to the agency appeal authority, acting as the delegate of the Secretary of the Treasury, and the appeal authority issued a decision imposing one of these sanctions.

**Disbarred by consent, Suspended by consent, Censured by consent, Monetary penalty imposed by consent, and Disqualified by consent**—In lieu of a disciplinary proceeding being instituted or continued, an individual offered a consent to one of these sanctions and OPR accepted the offer. Typically, an offer of consent will provide for: suspension for an indefinite term; conditions that the individual must observe during the suspension; and the individual's opportunity, after a stated number of months, to file with OPR a petition for reinstatement affirming compliance with the terms of the consent and affirming current eligibility to practice (*i.e.*, an active professional license or active enrollment status).

**Suspended indefinitely by decision in expedited proceeding, Suspended indefinitely by default decision in expedited proceeding, Suspended by consent in expedited proceeding**—OPR instituted an expedited proceeding for suspension (based on certain limited grounds, including loss of a professional license for cause, and criminal convictions).

OPR has authority to disclose the grounds for disciplinary sanctions in these situations: (1) an ALJ or the Secretary's delegate on appeal has issued a decision on or after September 26, 2007, which was the effective date of amendments to the regulations that permit making such decisions publicly available; (2) the individual has settled a disciplinary case by signing OPR's "consent to sanction" form, which requires consenting individuals to admit to one or more violations of the regulations and to consent to the disclosure of the individual's own return information related to the admitted violations (for example, failure to file Federal income tax returns); or (3) OPR has issued a decision in an expedited proceeding for indefinite suspension.

Announcements of disciplinary sanctions appear in the Internal Revenue Bulletin at the earliest practicable date. The sanctions announced below are alphabetized first by the names of states and second by the last names of individuals. Unless otherwise indicated, section numbers (*e.g.*, § 10.51) refer to the regulations.

City & State	Name	Professional Designation	Disciplinary Sanction	Effective Date(s)
<b>Arizona</b>				
Buckeye	Carlson, Steven M.	CPA	Suspended by default decision in expedited proceeding under § 10.82 (suspension of CPA license in Washington State)	Indefinite from November 13, 2012

<b>City &amp; State</b>	<b>Name</b>	<b>Professional Designation</b>	<b>Disciplinary Sanction</b>	<b>Effective Date(s)</b>
Camp Verde	Andre, Damian C.	Enrolled Agent	Suspended by default decision in expedited proceeding under § 10.82 (conviction under Arizona law for fraud and misrepresentation concerning worker's compensation insurance)	Indefinite from January 10, 2013
<b>Arkansas</b>				
Ash Flat	Morris, James B.	Public Accountant	Suspended by default decision in expedited proceeding under § 10.82 (conviction under 26 U.S.C. § 7206(2), aiding and abetting the preparation of false income tax returns; 18 U.S.C. § 641, aiding and abetting theft of social security funds, 42 U.S.C. § 408, concealment of a material fact as to social security funds, 18 U.S.C. § 641, theft of veteran's administration funds, 18 U.S.C. § 371 conspiracy to defraud the government, 10 U.S.C. § 1097, aiding and abetting obtaining title IV funds by fraud and false statements; revocation of Arkansas Public Accountant license)	Indefinite from November 13, 2012
<b>California</b>				
Lompoc	Tannous, George	Enrolled Agent	Suspended by default decision in expedited proceeding under § 10.82 (conviction under 18 U.S.C. § 371, conspiracy, and 26 U.S.C. § 7206, subscribing to a false tax return)	Indefinite from November 13, 2012

<b>City &amp; State</b>	<b>Name</b>	<b>Professional Designation</b>	<b>Disciplinary Sanction</b>	<b>Effective Date(s)</b>
Santa Monica	Kerekes, Michael S.	Attorney	Suspended by default decision in expedited proceeding under § 10.82 (conviction under 18 U.S.C. § 371, conspiracy, and 26 U.S.C. § 7201, tax evasion in the USDC, SDNY)	Indefinite from January 10, 2013
<b>District of Columbia</b>				
	Assaraf, Steven M., See Maryland			
<b>Florida</b>				
Hialeah	Sanders, Berta	CPA	Suspended by default decision in expedited proceeding under § 10.82 (conviction under 18 U.S.C. § 1349, conspiracy to commit bank fraud)	Indefinite from November 13, 2012
<b>Illinois</b>				
Monee	Galvin, Laura M.	CPA		Reinstated to practice before the IRS, effective December 3, 2012
South Holland	Ihejirika, Christopher	CPA	Suspended by default decision in expedited proceeding under § 10.82 (conviction under 26 U.S.C. § 7201, tax evasion)	Indefinite from November 13, 2012
<b>Indiana</b>				
Indianapolis	Freeman, Timothy D.	Attorney	Suspended by default decision in expedited proceeding under § 10.82 (suspension of attorney license)	Indefinite from January 16, 2013
Indianapolis	Sheedy, Stacy L.	CPA	Suspended by default decision in expedited proceeding under § 10.82 (conviction under state law, theft; receiving stolen property)	Indefinite from January 9, 2013

<b>City &amp; State</b>	<b>Name</b>	<b>Professional Designation</b>	<b>Disciplinary Sanction</b>	<b>Effective Date(s)</b>
<b>Maryland</b>				
	Coppola, John M., See Virginia			
Baltimore	Goldstein, David B.	Attorney	Suspended by default decision in expedited proceeding under § 10.82 (attorney disbarment by the Court of Appeals of Maryland, and conviction under 18 U.S.C. §§ 2252 and 2256, distribution of visual depictions of minors engaged in sexually explicit conduct)	Indefinite from November 9, 2012
Baltimore	Stern, Gary F.	Attorney	Suspended by default decision in expedited proceeding under § 10.82 (attorney disbarment by the Court of Appeals of Maryland)	Indefinite from October 18, 2012
Rockville	Assaraf, Steven M.	Attorney	Suspended by default decision in expedited proceeding under § 10.82 (attorney disbarment by the Court of Appeals of Maryland, and suspension of attorney license in the District of Columbia)	Indefinite from November 9, 2012
Silver Spring	Romanus, Joyce A.	Enrolled Agent	Disbarment by consent for admitted violation of § 10.51 (failure to pay Federal tax liability for tax years 2007–2010, failure to pay Employer's Quarterly Federal tax for tax years 2009 (3rd qtr.); 2010, 2011 (1st & 2nd qtrs.)	Indefinite from January 15, 2013
<b>Massachusetts</b>				
Chatham	Edgar, Charles M.	CPA	Suspended by default decision in expedited proceeding under § 10.82 (revocation of CPA license)	Indefinite from January 9, 2013
Kingston	Lamond, III, John F.	Attorney	Suspended by default decision in expedited proceeding under § 10.82 (resignation in lieu of loss of license for cause)	Indefinite from November 13, 2012

<b>City &amp; State</b>	<b>Name</b>	<b>Professional Designation</b>	<b>Disciplinary Sanction</b>	<b>Effective Date(s)</b>
<b>Mississippi</b>				
West Point	Hamilton, Gary C.	CPA	Suspended by default decision in expedited proceeding under § 10.82 (conviction under 18 U.S.C. § 371 and 26 U.S.C. § 7201, conspiracy to evade taxes, and evade income taxes; and revocation of CPA license)	Indefinite from January 10, 2013
<b>Missouri</b>				
Maryland Hts	Black, Todd R.	Attorney	Suspended by default decision in expedited proceeding under § 10.82 (attorney disbarment)	Indefinite from January 22, 2013
<b>Nebraska</b>				
Omaha	Kiroff, Mark A.	CPA	Suspended by default decision in expedited proceeding under § 10.82 (revocation of CPA license)	Indefinite from August 7, 2012
<b>Nevada</b>				
Las Vegas	Tewolde, Benaym	Unenrolled Preparer	Disbarred by consent for admitted violation of § 10.51(a) (disreputable and incompetent conduct which conduct renders the practitioner unfit to practice before the IRS)	Indefinite from December 18, 2012
<b>New York</b>				
Kerekes, Michael S., See California				
New York	Park, Sun H.	Enrolled Agent	Suspended by decision in expedited proceeding under § 10.82 (conviction under 18 U.S.C. § 1341, mail fraud, 18 U.S.C. § 1349 & 1344, conspiracy to commit bank fraud, 26 U.S.C. § 7206, aiding another in the preparation and presentation of a false income tax return)	Indefinite from October 31, 2012

<b>City &amp; State</b>	<b>Name</b>	<b>Professional Designation</b>	<b>Disciplinary Sanction</b>	<b>Effective Date(s)</b>
<b>North Carolina</b>				
Butner	Harris, Ephrain D.	Enrolled Agent	Suspended by decision in expedited proceeding under § 10.82 (conviction under 18 U.S.C. § 1346, conspiracy to commit mail and wire fraud in USDC, EDVA)	Indefinite from October 31, 2012
<b>North Dakota</b>				
Fargo	McDonagh, Alan M.	Attorney	Suspended by default decision in expedited proceeding under § 10.82 (conviction under North Dakota law, forgery or counterfeiting; and suspension of attorney license)	Indefinite from December 10, 2012
<b>Ohio</b>				
Cleveland Heights	Drake, Charles C.	CPA	Suspended by decision in expedited proceeding under § 10.82 (revocation of CPA license)	Indefinite from November 28, 2012
<b>Tennessee</b>				
Franklin	Heath, Stewart O.	CPA	Suspended by default decision in expedited proceeding under § 10.82 (voluntarily revocation of CPA license)	Indefinite from November 13, 2012
<b>Virginia</b>				
McLean	Coppola, John M.	Attorney	Suspended by default decision in expedited proceeding under § 10.82 (attorney disbarment by the Court of Appeals of Maryland, and suspension of attorney license)	Indefinite from January 16, 2013
Harris, Ephrain D., See North Carolina				
<b>Washington</b>				
Carlson, Steven M., See Arizona				

# Definition of Terms

*Revenue rulings and revenue procedures (hereinafter referred to as “rulings”) that have an effect on previous rulings use the following defined terms to describe the effect:*

*Amplified* describes a situation where no change is being made in a prior published position, but the prior position is being extended to apply to a variation of the fact situation set forth therein. Thus, if an earlier ruling held that a principle applied to A, and the new ruling holds that the same principle also applies to B, the earlier ruling is amplified. (Compare with *modified*, below).

*Clarified* is used in those instances where the language in a prior ruling is being made clear because the language has caused, or may cause, some confusion. It is not used where a position in a prior ruling is being changed.

*Distinguished* describes a situation where a ruling mentions a previously published ruling and points out an essential difference between them.

*Modified* is used where the substance of a previously published position is being changed. Thus, if a prior ruling held that a principle applied to A but not to B, and the new ruling holds that it applies to both A

and B, the prior ruling is modified because it corrects a published position. (Compare with *amplified* and *clarified*, above).

*Obsoleted* describes a previously published ruling that is not considered determinative with respect to future transactions. This term is most commonly used in a ruling that lists previously published rulings that are obsoleted because of changes in laws or regulations. A ruling may also be obsoleted because the substance has been included in regulations subsequently adopted.

*Revoked* describes situations where the position in the previously published ruling is not correct and the correct position is being stated in a new ruling.

*Superseded* describes a situation where the new ruling does nothing more than restate the substance and situation of a previously published ruling (or rulings). Thus, the term is used to republish under the 1986 Code and regulations the same position published under the 1939 Code and regulations. The term is also used when it is desired to republish in a single ruling a series of situations, names, etc., that were previously published over a period of time in separate rulings. If the new ruling does more than restate the substance

of a prior ruling, a combination of terms is used. For example, *modified* and *superseded* describes a situation where the substance of a previously published ruling is being changed in part and is continued without change in part and it is desired to restate the valid portion of the previously published ruling in a new ruling that is self contained. In this case, the previously published ruling is first modified and then, as modified, is superseded.

*Supplemented* is used in situations in which a list, such as a list of the names of countries, is published in a ruling and that list is expanded by adding further names in subsequent rulings. After the original ruling has been supplemented several times, a new ruling may be published that includes the list in the original ruling and the additions, and supersedes all prior rulings in the series.

*Suspended* is used in rare situations to show that the previous published rulings will not be applied pending some future action such as the issuance of new or amended regulations, the outcome of cases in litigation, or the outcome of a Service study.

# Abbreviations

*The following abbreviations in current use and formerly used will appear in material published in the Bulletin.*

A—Individual.  
Acq.—Acquiescence.  
B—Individual.  
BE—Beneficiary.  
BK—Bank.  
B.T.A.—Board of Tax Appeals.  
C—Individual.  
C.B.—Cumulative Bulletin.  
CFR—Code of Federal Regulations.  
CI—City.  
COOP—Cooperative.  
Ct.D.—Court Decision.  
CY—County.  
D—Decedent.  
DC—Dummy Corporation.  
DE—Donee.  
Del. Order—Delegation Order.  
DISC—Domestic International Sales Corporation.  
DR—Donor.  
E—Estate.  
EE—Employee.  
E.O.—Executive Order.

ER—Employer.  
ERISA—Employee Retirement Income Security Act.  
EX—Executor.  
F—Fiduciary.  
FC—Foreign Country.  
FICA—Federal Insurance Contributions Act.  
FISC—Foreign International Sales Company.  
FPH—Foreign Personal Holding Company.  
F.R.—Federal Register.  
FUTA—Federal Unemployment Tax Act.  
FX—Foreign corporation.  
G.C.M.—Chief Counsel’s Memorandum.  
GE—Grantee.  
GP—General Partner.  
GR—Grantor.  
IC—Insurance Company.  
I.R.B.—Internal Revenue Bulletin.  
LE—Lessee.  
LP—Limited Partner.  
LR—Lessor.  
M—Minor.  
Nonacq.—Nonacquiescence.  
O—Organization.  
P—Parent Corporation.  
PHC—Personal Holding Company.  
PO—Possession of the U.S.  
PR—Partner.

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<sup>1</sup> A cumulative list of all revenue rulings, revenue procedures, Treasury decisions, etc., published in Internal Revenue Bulletins 2012–27 through 2012–52 is in Internal Revenue Bulletin 2012–52, dated December 27, 2012.

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<sup>1</sup> A cumulative list of current actions on previously published items in Internal Revenue Bulletins 2012–27 through 2012–52 is in Internal Revenue Bulletin 2012–52, dated December 27, 2012.

# **Internal Revenue Service**

## **Washington, DC 20224**

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## **INTERNAL REVENUE BULLETIN**

The Introduction at the beginning of this issue describes the purpose and content of this publication. The weekly Internal Revenue Bulletins are available at [www.irs.gov/irb/](http://www.irs.gov/irb/).

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