

ANNOUNCEMENT AND REPORT CONCERNING ADVANCE PRICING AGREEMENTS

March 27, 2014

This Announcement is issued pursuant to § 521(b) of Pub. L. 106-170, the Ticket to Work and Work Incentives Improvement Act of 1999, which requires the Secretary of the Treasury to report annually to the public concerning advance pricing agreements (APAs) and the Advance Pricing and Mutual Agreement (APMA) Program, formerly known as the Advance Pricing Agreement (APA) Program. The first report covered calendar years 1991 through 1999. Subsequent reports covered separately each calendar year 2000 through 2012. This fifteenth report describes the experience, structure, and activities of the APMA Program during calendar year 2013. It does not provide guidance regarding the application of the arm's length standard.

During 2013, the APMA Program continued to benefit from the merger and processing efficiencies that began in 2012. For the second year in a row, the number of executed APAs increased (from 140 in 2012 to 145 in 2013). The median completion time fell from 39.8 months in 2012 to 32.7 months in 2013. The increase in efficiency is further illustrated by the fact that the number of executed APAs (145) again surpassed the number of applications filed (111).

Part I of this report includes information on the structure, composition, and operation of the APMA Program; Part II presents statistical data for 2013; and Part III includes general descriptions of various elements of the APAs executed in 2013, including types of transactions covered, transfer pricing methods used, and completion time.

Calendar year 2013 provided many challenges to the leadership and staff of the APMA Program, but as illustrated below, the APMA Program has achieved many of its goals for 2013. The APMA Program 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)]

In February of 2012, 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) and combined with the United States Competent Authority (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.

After the formation of the APMA Program, the team that developed the IRS position in a bilateral or multilateral case and finalized the APA with the taxpayer also became responsible for discussing the case and obtaining an agreement with the treaty partner. This compression of functions into a single APA team has helped to eliminate inefficiencies and decreased the amount of time it takes to reach resolution once a case is set for discussion with the treaty partner.

As of the date of this report, the APMA Program is comprised of 55 team leaders, 26 economists, and 10 senior managers organized in 10 groups (7 team leader groups and 3 economist groups). The team leader groups are organized by country with each group having responsibility for multiple countries. Because of the large volume of cases with certain treaty partners, some countries are the responsibility of more than one group. The APMA Program's main office is located in Washington, DC, and it also has a significant presence in San Francisco and the Los Angeles area.

During the last quarter of 2013, new proposed revenue procedures governing APA applications and MAP applications were released for public comment in Notice 2013-79, 2013-50 I.R.B. 653, and Notice 2013-78, 2013-50 I.R.B. 633, respectively. These proposed revenue procedures reflect the changes in APMA's structure, and more importantly, were informed by the cumulative experience of more than 20 years of APA practice in the United States, which has produced more than eleven hundred unilateral and bilateral agreements since 1991.

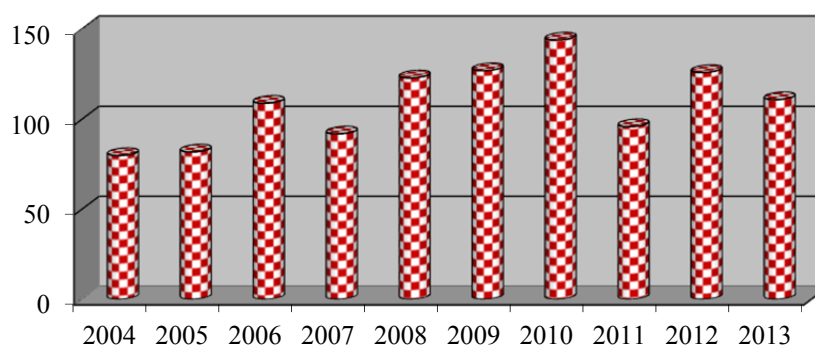
The model APA agreement, which was last revised significantly in 2009 and is currently under review for future changes, appears in this report as Appendix 1. See Pub. L. 106-170 § 521(b)(2)(B). A list of primary APMA contacts is included as Appendix 2.

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

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

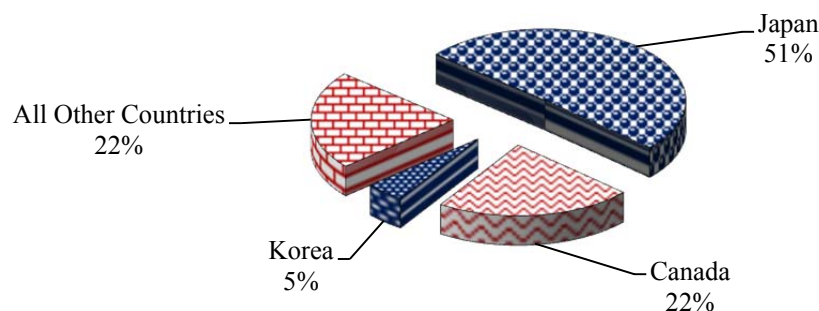
	Unilateral	Bilateral	Multilateral	Total
Filed 1991-1999 ¹				401
Filed 2000-2012	439	904	1	1344
Filed in 2013	20	89	2	111
Total Filed 1991-2013				1856

**Applications Filed
2004-2013**



The 111 APA applications received during 2013, represent a slight decrease from the 126 received in 2012. The table above illustrates the number of applications filed per year; however, the table does not include situations in which the taxpayer has paid a user fee but has not yet submitted a substantially complete APA request. As of December 31, 2013, APMA had received 42 user fee filings in addition to the 111 complete APA applications.

**Bilateral APAs
Filed by Country 2013**



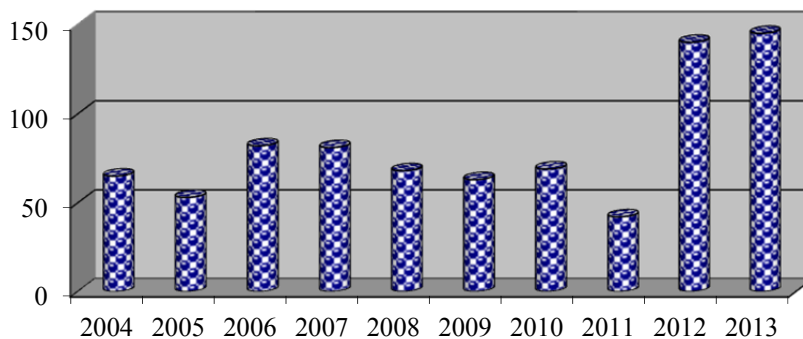
Almost 75 percent of the bilateral applications filed in 2013 involved either Japan or Canada.

¹ The first APA Statutory Report, which compiled APA data from 1991-1999, did not report the cumulative number of applications for those years by submission type, so the cumulative totals cannot be reported in that manner.

Table 2: Executed and Pending APAs
§ 521(b)(2)(C)(ii-vi)

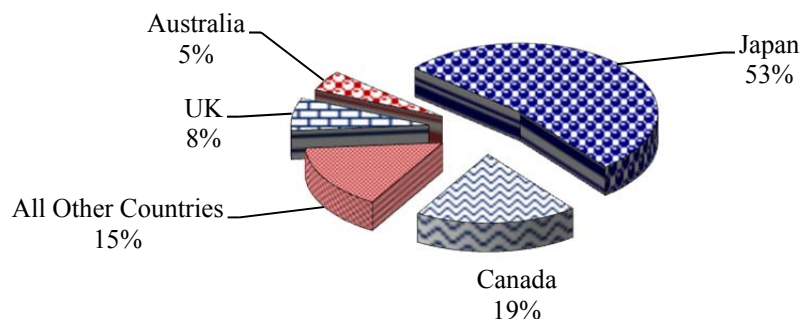
	Unilateral	Bilateral	Multilateral	Total
Total Executed 1991-2012	450	692	13	1155
Total Executed in 2013	39	105	1	145
Total Executed 1991-2013	489	797	14	1300
Total Pending	51	277	3	331
<i>Renewals Executed in 2013</i>	<i>27</i>	<i>49</i>	<i>1</i>	<i>77</i>
<i>Renewals Pending</i>	<i>20</i>	<i>126</i>	<i>1</i>	<i>147</i>

**APAs Executed
2004-2013**

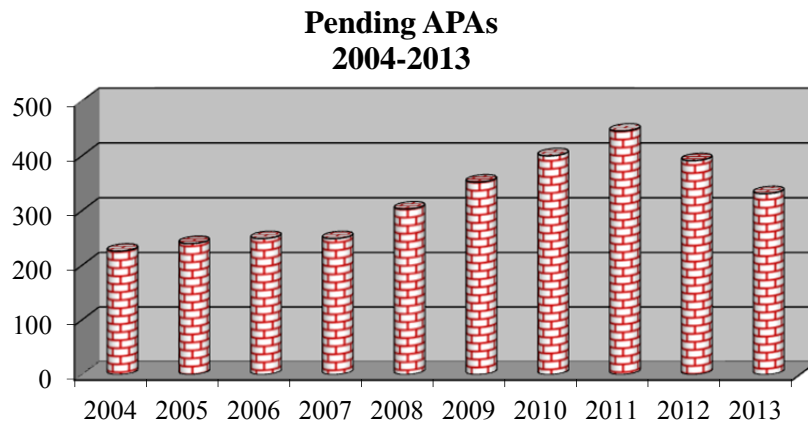


The APMA Program increased the number of APAs executed in its second year. The 145 APAs executed in 2013 surpassed the previous record of 140 executed agreements set in 2012. Of the 145 agreements executed in 2013, 68 of the agreements (47 percent) were new APAs (*i.e.*, not renewal APAs), an increase from the 57 (41 percent) new APAs executed in 2012.

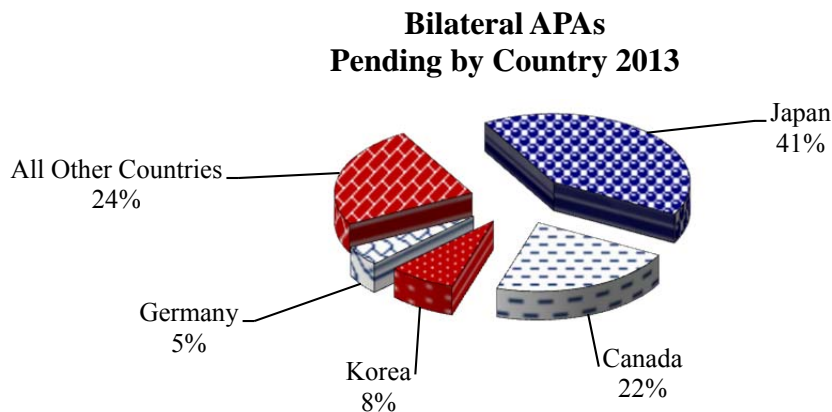
**Bilateral APAs
Executed by Country 2013**



As the chart above illustrates, more than half of the total number of bilateral APAs executed in 2013 involved the United States entering into a mutual agreement with Japan. Canada's 19 percent also represents a significant portion of the bilateral agreements.



The number of pending APAs decreased in 2013, primarily due to increased efficiencies within the new APMA Program. While the number of pending APAs at the end of 2013 was still higher than in some of the prior years reflected in the graph above, APMA's streamlining of internal processes and implementation of new procedures are expected to result in a continued decrease in the pending inventory in future years.



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

	Unilateral	Bilateral	Multilateral	Total
Revoked or Cancelled 2013	0	0	0	0
Total Revoked or Cancelled 1991-2013				11
Applications Withdrawn in 2013	3	6	0	9
Total Applications Withdrawn 1991-2013				189

Table 4: APAs Finalized or Renewed² by Industry
§ 521(b)(2)(C)(viii)

Industry	
Wholesale/Retail Trade	60
Manufacturing	51
Services	11
Natural Resources and Transportation	9
All Other Industries	14

APAs by Industry
Finalized or Renewed 2013

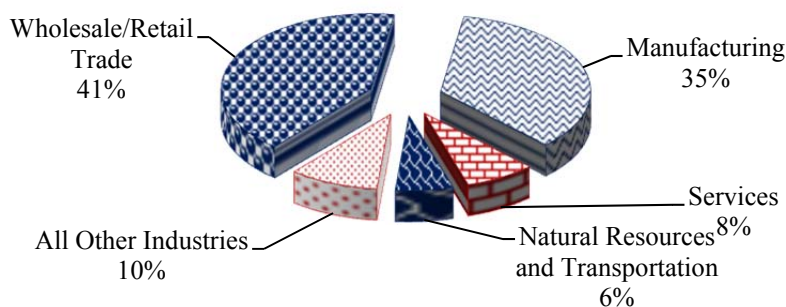
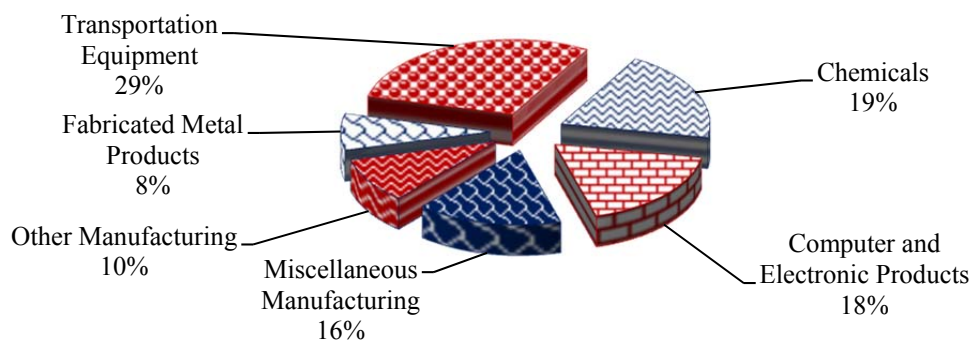


Table 4a: Manufacturing APAs Finalized or Renewed

Manufacturing	
Transportation Equipment	15
Chemicals	10
Computer and Electronic Products	9
Miscellaneous Manufacturing	8
Fabricated Metal Products	4
Other Manufacturing	5

Manufacturing APAs
Finalized or Renewed 2013



² APAs finalized or renewed are the same as APAs executed.

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

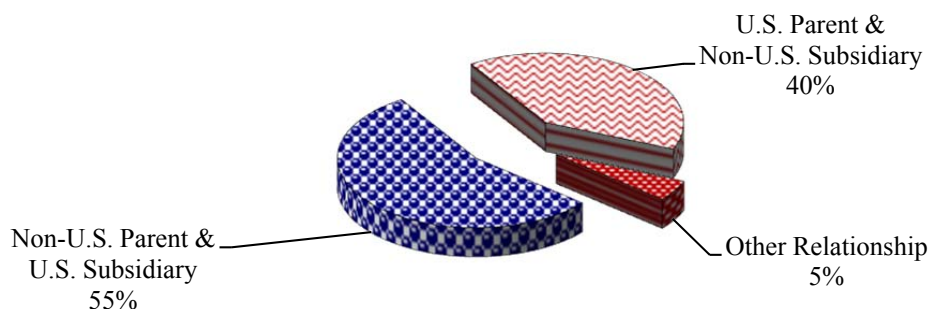
Wholesale/Retail Trade	
Merchant Wholesalers, Durable Goods	33
Merchant Wholesalers, Nondurable Goods	7
General Merchandise Stores	7
Wholesale Electronic Markets and Agents and Brokers	4
Other Wholesale/Retail Trade	9



Part III. General Descriptions of APAs Executed in 2013 [Pub. L. 106-170 § 521(b)(2)(D) and (E)]

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

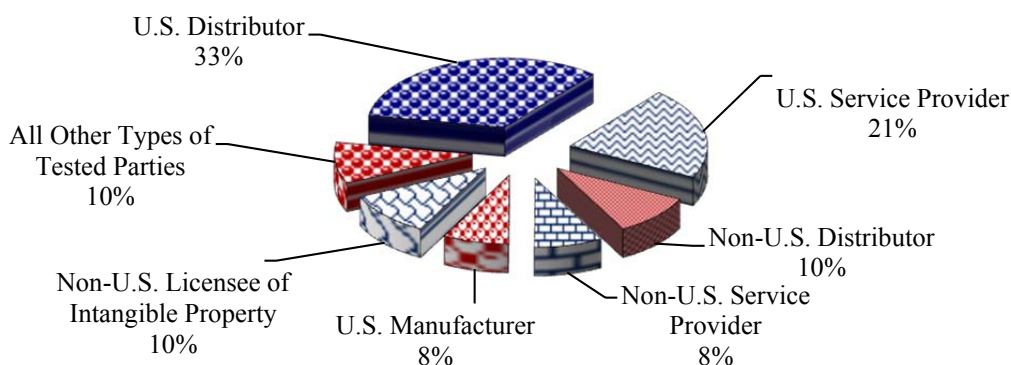
Relationships between Controlled Parties



As in prior years, more than half of the APAs executed in 2013 involved transactions between non-U.S. parents and U.S. subsidiaries. In 2013, approximately 55 percent of the APAs executed involved transactions between a non-U.S. parent and a U.S. subsidiary; 40 percent of the APAs executed involved transactions between a U.S. parent and a non-U.S. subsidiary; and the remaining 5 percent involved transactions that included either a partnership or a branch. In 2012, approximately 75 percent of the APAs executed involved transactions between a non-U.S. parent and a U.S. subsidiary, while the remaining 25 percent involved transactions between a U.S. parent and a non-U.S. subsidiary.

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

Types of Tested Parties

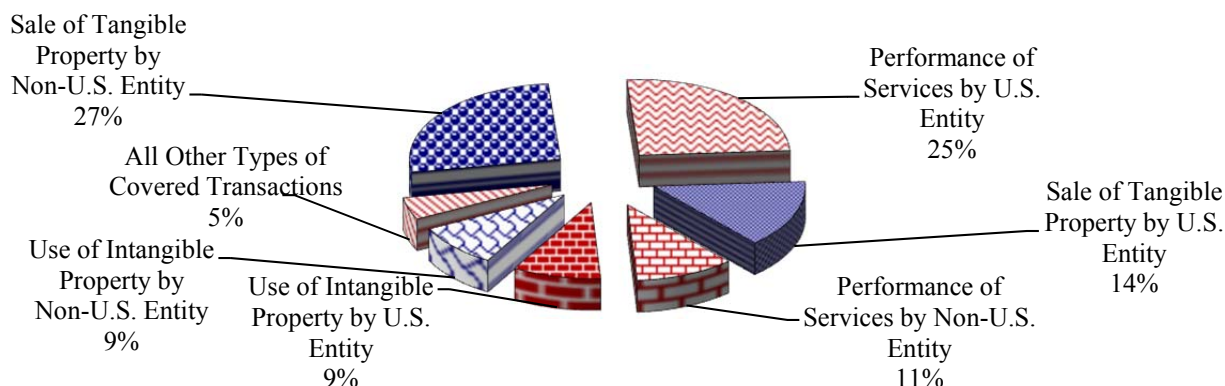


Consistent with prior years, the tested parties of the APAs executed in 2013³ fell primarily into one of two categories, *i.e.*, U.S. distributors and U.S. service providers. Combined, these two

³Not all APAs executed in 2013 included a tested party.

types of tested parties represent over 50 percent of the total. No other single type of entity represents greater than 10 percent of the total.

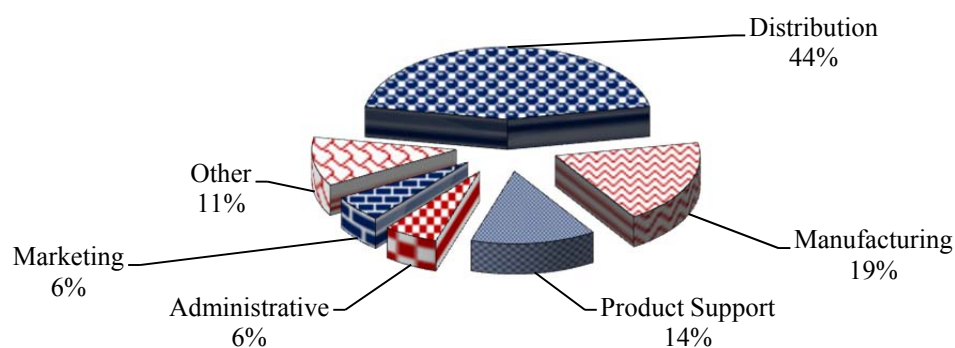
Types of Covered Transactions



Similar to 2012, 41 percent of the transactions covered in APAs executed in 2013 involved the sale of tangible goods and 36 percent involved the provision of services.

Although more than 75 percent of covered transactions involve tangible goods and services transactions, the IRS also has successfully completed numerous APAs involving transfers of intangibles. While complex transactions involving intangibles may be more challenging than other types of transactions and represent a smaller percentage of the APA inventory than other types of transactions, the IRS continues to seek opportunities to work with taxpayers and treaty partners to provide prospective certainty for such transactions wherever appropriate.

Tested Party Functions



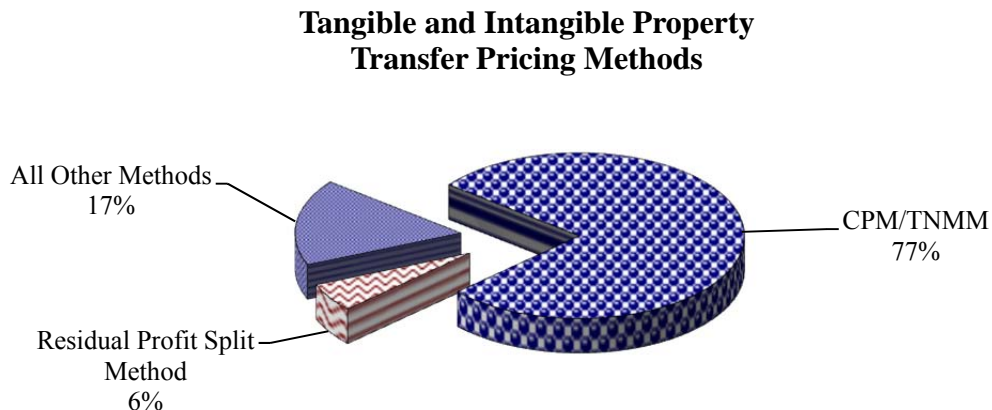
More than 60 percent of the tested parties in the APAs executed in 2013 involved distribution or related functions, *e.g.*, marketing and product support.



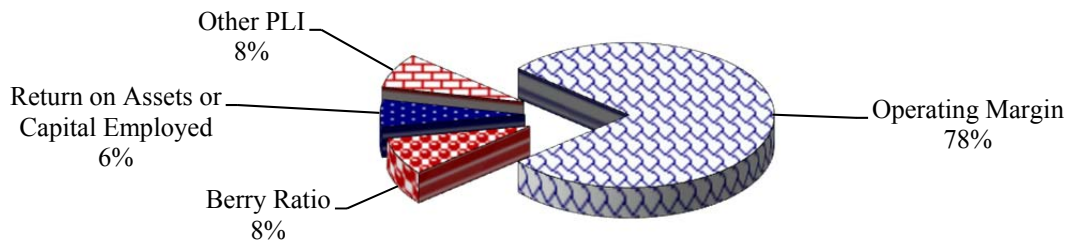
The risks borne by the tested parties were primarily business risks, *e.g.*, market risk and general business risk. A small percentage of the tested parties bore other risks such as product liability or research and development risk.

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 2013 was the Comparable Profits Method/Transactional Net Margin Method (CPM/TNMM).

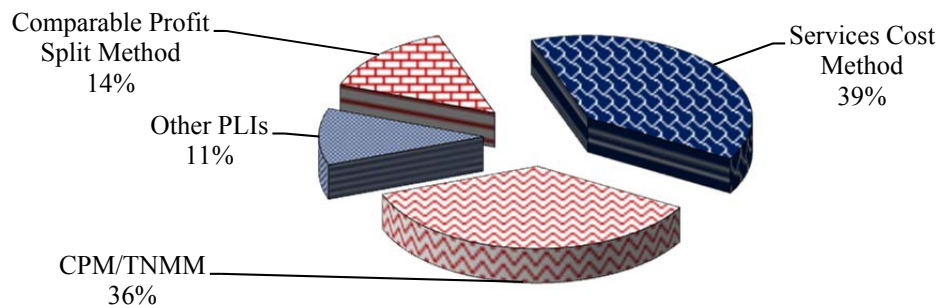


Tangible and Intangible Property CPM/TNMM Profit Level Indicators



In controlled transactions using the CPM/TNMM, the Operating Margin was the most common profit level indicator (PLI) used to benchmark results for transfers of tangible and intangible property. Per the applicable regulations, Operating Margin is defined as the ratio of operating profits to sales.⁴ The Berry Ratio, defined as the ratio of gross profit to operating expenses, was applied as the profit level indicator in 8 percent of the controlled transactions that used the CPM/TNMM.⁵ Each other profit level indicator accounted for a smaller share.

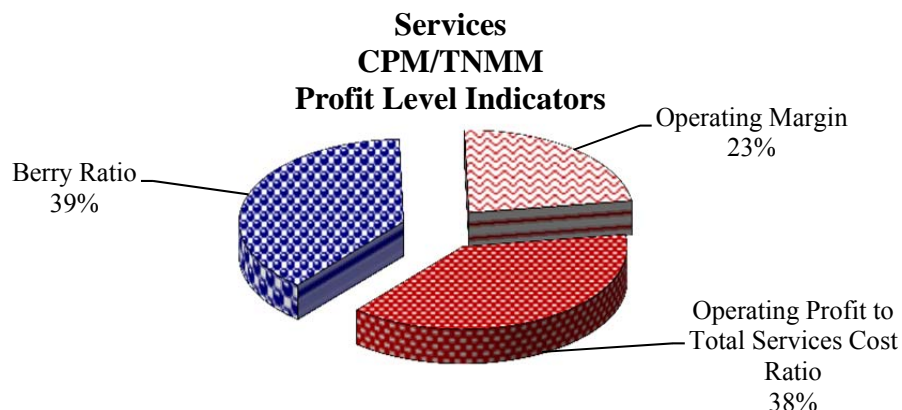
Services Transfer Pricing Methods



For services transactions, the majority of cases applied the Services Cost Method or the CPM/TNMM. The Services Cost Method evaluates the amount charged for certain services with reference to the total services costs.

⁴ Treas. Reg. § 1.482-5(b)(4)(ii)(A).

⁵ Treas. Reg. § 1.482-5(b)(4)(ii)(B).



When the CPM/TNMM is used to benchmark services transactions, the Berry Ratio continues to be the most frequently used PLI.

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

For the APAs executed in 2013 that used external comparables data in the analysis, the most widely used data source for comparables was the Standard and Poor's Compustat database. Other sources were also used in appropriate cases, *e.g.*, where the tested party was not the U.S. entity. The most commonly used sources are listed in the following table.

Table 5: Commonly Used Sources of Comparable Data

Disclosure	Mergent
Orbis	GlobalVantage
Worldscope	OneSource
Osirus	

In the majority of cases, the process of selecting comparables included comparison of a potential comparable's functions, risks, and industry to those of the tested party. The existence of comparable products was also considered in some cases.

In adjusting comparables, the standard balance sheet adjustments identified in Treas. Reg. § 1.482-1(d) and § 1.482-5(c), including adjustments to payables, receivables, and inventory, were made in the majority of cases. Where appropriate, accounting adjustments were made to convert from LIFO to FIFO inventory accounting, and a small number of cases also involved the accounting reclassification of expenses, *e.g.*, from COGS to operating expenses.

Ranges, Targets and Adjustment Mechanisms

§ 521(b)(2)(D)(viii-ix)

Almost 70 percent of the transactions covered in APAs executed in 2013 target an interquartile range as described in Treas. Reg. § 1.482-1(e)(2)(iii)(C). Where the transaction involves a royalty payment for the use of intangible property, both points and ranges have been used. 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 post-royalty operating margin, has been imposed. The testing periods of the APAs executed in 2013 included either: (1) a single year, (2) the term of the APA not including any rollback years, or (3) the term of the APA including rollback years.

APAs executed in 2013 include a number of mechanisms for making adjustments to tested party results when the results fall outside the range or do not match the point required by the APA. The following are examples of the mechanisms used in the 2013 executed APAs: an adjustment bringing the tested party's results to the closest edge of the range applied to the results of a single year; an adjustment to the closest edge of the range applied to the results over the APA term; an adjustment to the specified point or royalty rate; or an adjustment to the median of the range for a single year.

Critical Assumptions

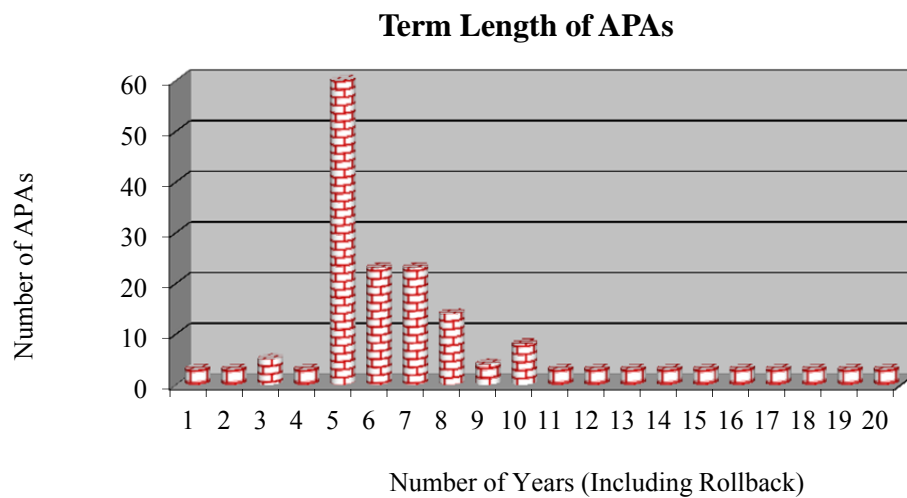
§ 521(b)(2)(D)(v)

The model APA used by the IRS (included as Appendix 1 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. Each of the APAs executed in 2013 included this 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. If the taxpayer's results violate the critical assumption, then the taxpayer is required to report to the IRS the event or events creating the violation. Pursuant to § 11.06(3) of Rev. Proc. 2006-9, when a critical assumption is violated, the APMA Director may agree to modify the APA. However, if there is no agreement to modify the APA, then the APA may be cancelled.

Term Lengths for APAs
§ 521(b)(2)(D)(x)

Table 6: Term Lengths (Including Rollback Years)

Term Length (years)	Number of APAs
1	≤3
2	≤3
3	5
4	≤3
5	60
6	23
7	23
8	14
9	4
10	8
11	≤3
12	≤3
13	≤3
14	≤3
15	≤3
16	≤3
17	≤3
18	≤3
19	≤3
20	≤3
Average	7 years

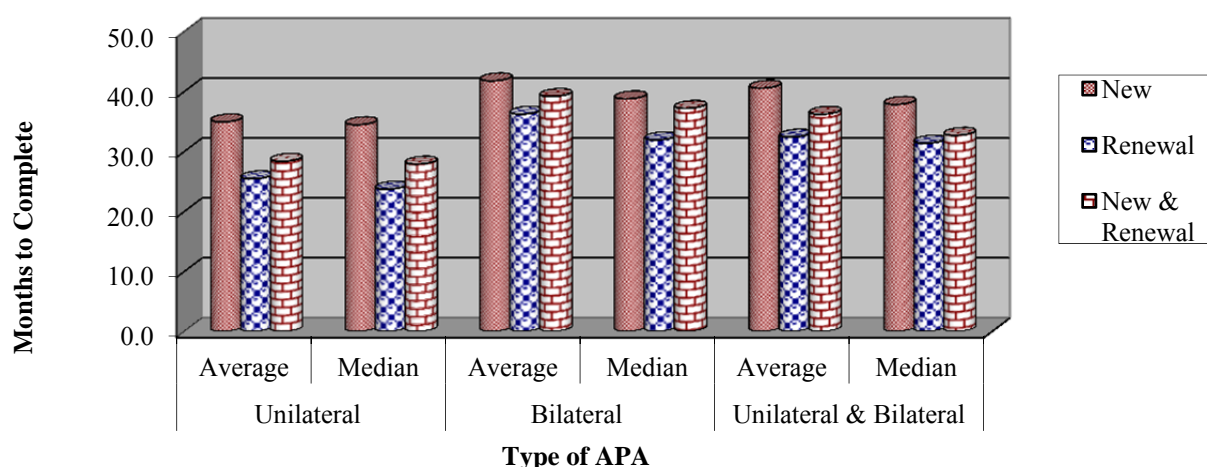


As described in § 4.07 of Rev. Proc. 2006-9, taxpayers should request at least a 5-year term in an APA submission, although the appropriate APA term is decided on a case-by-case basis. Of the APAs executed in 2013, 41 percent had a 5-year term while more than half had terms of 6 years or longer. For APAs with terms of greater than 6 years, a substantial number of those were submitted as a request for a 5-year term, and the additional years were agreed to between the taxpayer and the IRS (or, in the case of a bilateral APA, between the IRS and the foreign government upon the taxpayer's request). In 2013, 10 percent of the executed APAs included terms of 10 years or longer. The longer terms were agreed to based on the particular circumstances of each individual case and were often granted to ensure a reasonable amount of prospectivity in the APA term. The prospectivity of APA terms improved in 2013 from an average of 1 year in 2012 to 2 years in 2013. It is expected that the number of APAs with terms exceeding 10 years will decrease in future years as completion times continue to improve.

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

Table 7: Months to Complete New and Renewal APAs
§ 521(b)(2)(E)

	Unilateral		Bilateral		Unilateral & Bilateral	
	Average	Median	Average	Median	Average	Median
New	34.9	34.5	41.8	38.8	40.5	37.8
Renewal	25.4	23.7	36.2	31.9	32.4	31.4
New & Renewal	28.4	27.9	39.2	37.2	36.2	32.7



The median time required to complete the 145 APAs executed in 2013 was approximately 7 months less than the median time in 2012. Most of the improvement in completion time is attributable to bilateral APAs where agreements were reached more quickly with our treaty partners. These bilateral APA agreements were reached more quickly because of increased correspondence in advance of face-to-face meetings, elimination of the handoffs that took place

prior to the merger⁶, and a streamlined post-agreement process that moved from sequential processing to parallel processing once an agreement is reached.⁷

Efforts to Ensure Compliance with APAs

§ 521(b)(2)(F)

As described in § 11.01 of Rev. Proc. 2006-9, 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 APAs 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 staff member as well. 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 coordinate 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 2013 required taxpayers to provide various documents with their annual reports, depending on the specific facts of the case. While not every annual report will include each of the documents listed below (*e.g.*, where no compensating adjustment occurs, no documentation is required) the documents listed below are required where the facts demonstrate a need for such documentation.

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.

⁶ Before the merger, a developed APA position was "handed off" from an APA team leader to a USCA analyst who 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, the agreement was "handed off" from the USCA analyst back to the APA Director and team leader to draft the domestic APA.

⁷ For example, APMA would send a draft APA to the taxpayer in advance of receiving the signed agreement from the treaty partner.

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 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, a review of the financial statements by a certified public accountant.

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.

APPENDIX 1– Model APA (based on Rev. Proc. 2006-9)
[§ 521(b)(2)(B)]

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

PARTIES

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

RECITALS

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

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

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

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

AGREEMENT

The Parties agree as follows:

1. *Covered Transactions.* This APA applies to the Covered Transactions, as defined in Appendix A.

2. *Transfer Pricing Method.* Appendix A sets forth the Transfer Pricing Method (TPM) for the Covered Transactions.

3. *Term.* This APA applies to the APA Term, as defined in Appendix A.

4. *Operation.*

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

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

5. *Compliance.*

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

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

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

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

i. enforce the terms and conditions of this APA and make or propose allocations or adjustments under I.R.C. section 482 consistent with this APA;

- ii. cancel or revoke this APA under section 11.06 of Revenue Procedure 2006-9; or
- iii. revise this APA, if the Parties agree.

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

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

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

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

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

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

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

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

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

9. *Materiality.* In this APA the terms "material" and "materially" will be interpreted consistently with the definition of "material facts" in Revenue Procedure 2006-9, section 11.06(4).

10. *Section Captions.* This APA's section captions, which appear in *italics*, are for convenience and reference only. The captions do not affect in any way the interpretation or application of this APA.

11. *Terms and Definitions.* Unless otherwise specified, terms in the plural include the singular and vice versa. Appendix D contains definitions for capitalized terms not elsewhere defined in this APA.

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

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

14. *Notice.* Any notices required by this APA or Revenue Procedure 2006-9 must be in writing. Taxpayer will send notices to the IRS at the address and in the manner set forth in Revenue Procedure 2006-9, section 4.11. The IRS will send notices to:

Taxpayer Corporation Attn: Jane Doe, Sr. Vice President (Taxes) 1000 Any Road Any City, USA 10000 (phone: _____)
--

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

WITNESS,

The Parties have executed this APA on the dates below.

[Taxpayer Name in all caps]

By: _____ Date: _____, 201____
Jane Doe
Sr. Vice President (Taxes)

IRS

By: _____ Date: _____, 201____
Richard J. McAlonan, Jr.
Director, Advance Pricing and Mutual Agreement Program

APPENDIX A

COVERED TRANSACTIONS AND TRANSFER PRICING METHOD (TPM)

1. Covered Transactions.

[Define the Covered Transactions.]

2. APA Term.

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

3. TPM.

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

[The Tested Party is _____.]

- **CUP Method**

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

- **CUT Method**

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

- **Resale Price Method (RPM)**

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

- **Cost Plus Method**

The TPM is the cost plus method. The Tested Party's Cost Plus Markup is defined as follows for any APA Year: the Tested Party's ratio of gross profit to production costs (as those terms are defined in Treasury Regulations sections 1.482-3(d)(1) and (2)) for that APA Year. The Arm's Length Range is between ____% and ____%, and the Median of the Arm's Length Range is ____%.

- **CPM with Berry Ratio PLI**

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

- **CPM using an Operating Margin PLI**

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

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

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

- **Residual Profit Split Method**

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

[Insert additional provisions as needed.]

4. Application of TPM.

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

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

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

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

5. APA Revenue Procedure Treatment

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

[Insert additional provisions as needed.]

APPENDIX B
CRITICAL ASSUMPTIONS

This APA's critical assumptions are:

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

[Insert additional provisions as needed.]

APPENDIX C

APA RECORDS AND ANNUAL REPORT

APA RECORDS

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

ANNUAL REPORT

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 2006-9, section 11.02(3).

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

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

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

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

6. A financial analysis that reflects Taxpayer's TPM calculations for the APA Year. The calculations must reconcile with and reference the information required under item 4 above in sufficient account detail to allow the IRS to determine whether Taxpayer has complied with the TPM.
7. An organizational chart for the Worldwide Group, revised annually to reflect all ownership or structural changes of entities that are parties to the Covered Transactions or are otherwise relevant to the TPM.
8. A copy of the APA and any amendment.
9. A penalty of perjury statement, executed in accordance with Revenue Procedure 2006-9, section 11.01(6) and (7).

APPENDIX D

DEFINITIONS

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

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

Term	Definition
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: For each taxable year, the “return” that Taxpayer must “make” in accordance with I.R.C. section 6031.}</i>
Worldwide Group	Taxpayer and all organizations, trades, businesses, entities, or branches (whether or not incorporated, organized in the United States, or affiliated) owned or controlled directly or indirectly by the same interests.

APPENDIX E

APA ANNUAL REPORT SUMMARY FORM

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

APA Annual Report SUMMARY	Department of the Treasury--Internal Revenue Service Large Business and International Division Transfer Pricing Operations Advance Pricing and Mutual Agreement Program		APA No. _____ Team Leader _____ Economist _____ Intl Examiner _____
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APA Information	Taxpayer Name: _____ Taxpayer EIN: _____ NAICS: _____ APA Term: Taxable years ending _____ to _____ Original APA <input type="checkbox"/> Renewal APA <input type="checkbox"/> Annual Report due dates: _____, 201__ for all APA Years through APA Year ending in 200__; for each APA Year thereafter, on _____ [month and day] immediately following the close of the APA Year Principal foreign country(ies) involved in covered transaction(s): _____ Type of APA: <input type="checkbox"/> unilateral <input type="checkbox"/> bilateral with _____ Tested party is <input type="checkbox"/> US <input type="checkbox"/> foreign <input type="checkbox"/> both Approximate dollar volume of covered transactions (on an annual basis) involving tangible goods and services: <input type="checkbox"/> N/A <input type="checkbox"/> <\$50 million <input type="checkbox"/> \$50-100 million <input type="checkbox"/> \$100-250 million <input type="checkbox"/> \$250-500 million <input type="checkbox"/> >\$500 million APA tests on (check all that apply): <input type="checkbox"/> annual basis <input type="checkbox"/> multi-year basis <input type="checkbox"/> term basis APA provides (check all that apply) a: <input type="checkbox"/> range <input type="checkbox"/> point <input type="checkbox"/> floor only <input type="checkbox"/> ceiling only <input type="checkbox"/> other _____ APA provides for adjustment (check all that apply) to: <input type="checkbox"/> nearest edge <input type="checkbox"/> median <input type="checkbox"/> other point
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APA Annual Report Information (to be completed by the Taxpayer)	APA date executed: _____, 201__ This APA Annual Report Summary is for APA Year(s) ending in 200__ and was filed on _____, 201__ Check here <input type="checkbox"/> if Annual Report was filed after original due date but in accordance with extension. Has this APA been amended or changed? <input type="checkbox"/> yes <input type="checkbox"/> no Effective Date: _____ Has Taxpayer complied with all APA terms and conditions? <input type="checkbox"/> yes <input type="checkbox"/> no Were all the critical assumptions met? <input type="checkbox"/> yes <input type="checkbox"/> no Has a Primary Compensating Adjustment been made in any APA Year covered by this Annual Report? <input type="checkbox"/> yes <input type="checkbox"/> no If yes, which year(s): 200__ Have any necessary Secondary Compensating Adjustments been made? <input type="checkbox"/> yes <input type="checkbox"/> no Did Taxpayer elect APA Revenue Procedure treatment? <input type="checkbox"/> yes <input type="checkbox"/> no Any change to the entity classification of a party to the APA? <input type="checkbox"/> yes <input type="checkbox"/> no Taxpayer notice information contained in the APA remains unchanged? <input type="checkbox"/> yes <input type="checkbox"/> no Taxpayer's current US principal place of business: (City, State) _____
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APA Annual Report Checklist of Key Contents (to be completed by the Taxpayer)	<table style="width: 100%;"> <tr> <td style="width: 60%;">Financial analysis reflecting TPM calculations</td> <td style="text-align: right;"><input type="checkbox"/> yes <input type="checkbox"/> no</td> </tr> <tr> <td>Financial statements showing compliance with TPM(s)</td> <td style="text-align: right;"><input type="checkbox"/> yes <input type="checkbox"/> no</td> </tr> <tr> <td>Schedule M-1 or M-3 book-tax differences</td> <td style="text-align: right;"><input type="checkbox"/> yes <input type="checkbox"/> no</td> </tr> <tr> <td>Current organizational chart of relevant portion of world-wide group</td> <td style="text-align: right;"><input type="checkbox"/> yes <input type="checkbox"/> no</td> </tr> <tr> <td>Attach copy of APA</td> <td style="text-align: right;"><input type="checkbox"/> yes <input type="checkbox"/> no</td> </tr> </table> Other APA records and documents included: _____	Financial analysis reflecting TPM calculations	<input type="checkbox"/> yes <input type="checkbox"/> no	Financial statements showing compliance with TPM(s)	<input type="checkbox"/> yes <input type="checkbox"/> no	Schedule M-1 or M-3 book-tax differences	<input type="checkbox"/> yes <input type="checkbox"/> no	Current organizational chart of relevant portion of world-wide group	<input type="checkbox"/> yes <input type="checkbox"/> no	Attach copy of APA	<input type="checkbox"/> yes <input type="checkbox"/> no
Financial analysis reflecting TPM calculations	<input type="checkbox"/> yes <input type="checkbox"/> no										
Financial statements showing compliance with TPM(s)	<input type="checkbox"/> yes <input type="checkbox"/> no										
Schedule M-1 or M-3 book-tax differences	<input type="checkbox"/> yes <input type="checkbox"/> no										
Current organizational chart of relevant portion of world-wide group	<input type="checkbox"/> yes <input type="checkbox"/> no										
Attach copy of APA	<input type="checkbox"/> yes <input type="checkbox"/> no										

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

APPENDIX 2 – APMA Contacts

APMA LEADERSHIP			
Director	McAlonan, Richard	202-515-4706	richard.j.mcalonanjr@irs.gov
Deputy Director	Dhawale, Hareesh	202-515-4306	hareesh.dhawale@irs.gov

ECONOMISTS			
Senior Manager	Larson, Chuck	312-292-3663	charles.r.larson@irs.gov
Senior Manager	Thayer, Victor	949-360-3435	victor.e.thayer@irs.gov

AUSTRALIA, AUSTRIA, GERMANY, ISRAEL, JAPAN, KAZAKHSTAN, NETHERLANDS, NEW ZEALAND, RUSSIA & UKRAINE			
Senior Manager	Cohen, Judith	202-515-4312	judith.c.cohen@irs.gov

CHINA, INDONESIA, JAPAN, SOUTH AFRICA & THAILAND			
Senior Manager	Rock, Peter	415-547-3776	peter.c.rock@irs.gov

CANADA, ITALY & LUXEMBOURG			
Senior Manager	McOmber, Jim	202-515-4742	james.b.mcomber2@irs.gov

DENMARK, INDIA, IRELAND, NORWAY, SWEDEN, SWITZERLAND & UK			
Senior Manager	Hughes, John	202-515-4307	john.c.hughes@irs.gov

ARGENTINA, CANADA, CARIBBEAN, MEXICO, PORTUGAL, PUERTO RICO, SPAIN & VENEZUELA			
Senior Manager	Wood, Kenneth	202-515-4736	kenneth.w.wood@irs.gov

BELGIUM, CANADA, FRANCE, GREECE, HUNGARY, ROMANIA & TURKEY			
Senior Manager	Fouts, Patricia	202-515-4740	patricia.a.fouts@irs.gov

GUAM, JAPAN, KOREA, MOROCCO & PHILIPPINES			
Senior Manager	Bracken, Dennis	310-414-3617	dennis.j.bracken@irs.gov

As of March 27, 2014