

**CRA
APA PROGRAM REPORT**

2007-2008



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Executive Summary

This is the sixth report issued by the CRA on its Advance Pricing Arrangement (APA) Program.

This report describes the purpose of the APA Program, its history, and current events that are shaping its future. Emphasis is placed on statistical analysis in order to make the Program more transparent as well as to provide insight as to the approaches taken by the CRA and its treaty partners on difficult transfer pricing issues.

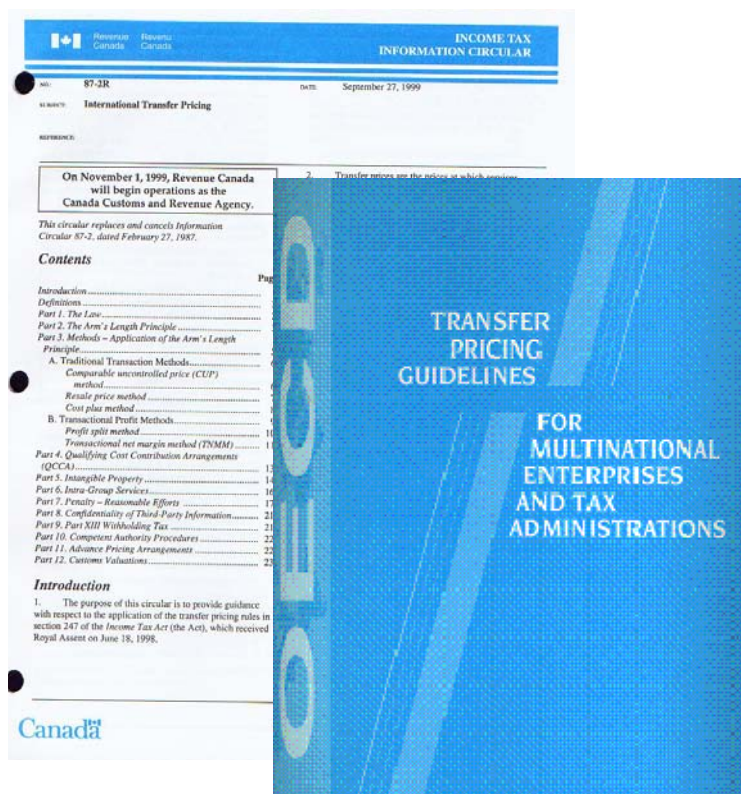
The CRA encourages all taxpayers with related party transactions to consider whether an APA is an appropriate choice. For more information, please consult Information Circular 94-4R *Advance Pricing Arrangements* or contact the Competent Authority Services Division, telephone (613) 941-2768, facsimile (613) 990-7370, or email MAP-APA.PAA-APP@cra-arc.gc.ca.

Introduction

The APA Program is a service provided by the CRA to assist taxpayers in resolving transfer pricing disputes that may arise in the future with a proactive approach that gives tax certainty to all stakeholders. The APA process is different from an audit. The focus of an APA is on forward tax years rather than past tax years. An APA also requires mutual cooperation and a free flow of information to achieve its goal – the arrangement.

What is an APA?

An APA is an arrangement between a taxpayer and a tax administration that confirms the appropriate transfer pricing methodology to establish an arm's length price for transactions between related parties. The arm's length price must be established with reference to the arm's length principle as described by the Organisation for Economic Co-operation and Development (OECD) *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations* and Information Circular 87-2R *International Transfer Pricing*.






How is an APA achieved?

- ▶ Taxpayer indicates interest in the APA Program (directly to the CRA's APA Coordinator on an informal, or even anonymous, basis or through the local taxation services office)
- ▶ APA Coordinator provides the taxpayer with information about the APA process and answers questions –“APA First Step”
- ▶ Pre-filing meeting is held between the taxpayer and the CRA to determine if the APA Program is suitable
- ▶ Both the CRA and the taxpayer commit to the APA process (CRA issues conditional acceptance, the taxpayer prepares formal APA request)
- ▶ Taxpayer files a formal APA request with the CRA and pays cost recovery amount (based on anticipated CRA travel costs)
- ▶ CRA reviews the APA request, issues official acceptance letter or seeks additional information if necessary
- ▶ CRA performs due diligence and prepares position paper
- ▶ CRA sends draft position paper to taxpayer for a review of factual accuracy
- ▶ CRA sends a final position paper to the foreign tax authority and resolves the APA through competent authority negotiations (only for bilateral APAs)
- ▶ CRA sends proposed APA to taxpayer for review, comments, and acceptance
- ▶ If accepted, CRA sends final APA to taxpayer for signature and refunds excess cost recovery amount
- ▶ Taxpayer files periodic compliance reports and at the end of the APA term and may request a renewal of the APA

What are the benefits of entering into an APA?

- An APA deals with future tax years and seeks to resolve issues prior to audit action possibly being taken by a tax administration. Since an APA deals with future years, the ability to use hindsight in making a determination as to how arm's length parties would have conducted business is eliminated.
- In providing tax certainty for five or more years, taxpayers can reallocate resources to other, more pressing issues. The security of an APA provides the taxpayer with the ability to prepare improved budget forecasts for related party entities.
- Increased tax certainty achieved through a bilateral or multilateral APA means that double taxation will not occur for the transactions covered by the APA.
- The APA process is a cooperative approach to resolving potential transfer pricing disputes. The views of the taxpayer, as presented in the APA request, are given first consideration. In the majority of cases, the CRA will agree with the proposed transfer pricing methodology (TPM). In cases where the CRA prefers another methodology (following the hierarchy outlined by the OECD and endorsed by the CRA), the rationale and basis for this decision are presented to the taxpayer for discussion. It is in this cooperative spirit and with the open sharing of information that trust and cooperation flourish – and the potentially adversarial nature of a transfer pricing audit is avoided.
- With the experience of completing over a hundred APAs and hundreds of double tax cases involving transfer pricing resolved under the Mutual Agreement Procedure (MAP) article in our treaties, the CRA is able to bring highly skilled analysts (auditors, economists, and lawyers) into the case to quickly identify the key issues and achieve faster case resolution than through the audit/double tax process.
- The CRA offers “First Step” calls and pre-filing meetings, free-of-charge and without commitment, to discuss the taxpayer's transfer pricing issues. The primary purpose of these meetings is to determine the suitability of an APA for the related party transactions and to provide preliminary comments on the taxpayer's proposed TPM. These initial calls or meetings may also be conducted anonymously.
- As nearly all Canadian taxpayers maintain contemporaneous documentation to support their transfer pricing under section 247 of the *Income Tax Act*, little additional cost should be required to prepare an APA submission. In the majority of cases, current transfer pricing documentation plus a statement of expectations (for the company and industry) for the period of the proposed APA is sufficient.

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- An executed APA satisfies Canadian transfer pricing documentation requirements; therefore taxpayers will avoid the expense of undertaking regular documentation studies for transactions covered by the APA. This point is particularly true as more and more countries adopt transfer pricing documentation requirements, sometimes with different standards in place. An APA simply requires that the taxpayer demonstrate that they are in compliance with the terms of the APA (rather than the more exhaustive task of demonstrating that pricing is arm's length) for each of the covered years.
 - Many taxpayers enter the APA process as a result of current audit activity. While an APA focuses on future tax years, the CRA will usually agree to accept (subject to the acceptance by the other tax administration(s) involved) a request to “rollback” the terms and conditions of an APA to open tax years where (a) a request for contemporaneous documentation has not been issued by a tax services office (TSO), (b) the facts and circumstances are the same, (c) the foreign tax administration and the relevant TSO have both agreed to accept the APA rollback request; and (d) appropriate waivers, in the form outlined in subparagraph 152(4)(a)(ii) of the Income Tax Act, have been filed. For taxpayers and the tax administration, this has the advantage of resolving many years of potential tax issues in a single process.
 - Once the initial APA has expired, if the facts have not significantly changed, renewals are straightforward due to the establishment of the previously agreed upon transfer pricing methodology and the level of comfort, trust, and cooperation enjoyed by all parties to the process.
 - The number of transfer pricing audits continues to increase in most tax jurisdictions. Transfer pricing is often identified as the most contentious issue facing multinational enterprises. As transfer pricing audits increase and the issues identified by auditors become more complex, the APA Program is ideally situated to provide taxpayers with the most effective and efficient mechanism to resolve potential disputes.

For these reasons, the APA Program is viewed as the transfer pricing compliance tool of choice by the CRA. This belief is shared by other tax administrations as each year more countries are implementing APA programs.

Despite the many advantages, a number of taxpayers that might benefit considerably from obtaining an APA have not yet investigated the Program. As such, the CRA continues to actively promote the APA Program. We expect that through regular promotional activities and ongoing Program improvements, combined with steady international audit activity, more taxpayers will wish to explore the benefits of our APA Program.

What are the costs of entering into an APA?

- An APA will require an initial investment of taxpayer time and an initial investment of taxpayer money (due to advisory fees and the APA cost recovery amount). However, should the transfer pricing issue be contentious on audit, the amount of time necessary to resolve the audit and then to seek Competent Authority assistance would be much greater.
- Both the APA and audit processes may require a taxpayer to disclose information to the CRA that may be sensitive in nature (e.g. trade secrets). The APA process does not require the disclosure of information beyond that which may be requested on audit. The use of taxpayer information is governed by the disclosure restrictions of section 241 of the Income Tax Act and may be used by the CRA for audit purposes.
- Although the CRA endeavours to resolve all APAs accepted into the Program, there is a possibility that the APA request may not be resolved with the other tax administration. The likelihood of this occurring is very rare.
- The APA may be resolved in a manner different than what was proposed in the APA request (e.g. use of a different TPM). If this occurs, the taxpayer has the decision to accept the resolution arrived at by the Competent Authorities, or to reject it and withdraw from the APA process.



Who is involved in an APA?

The International and Large Business Directorate is part of the Compliance Programs Branch of the CRA. The Competent Authority Services Division (CASD) within the International and Large Business Directorate has responsibility for the APA Program. The Director of the CASD is also a delegated Competent Authority for Canada on matters of double taxation and is responsible for the administration of the APA Program.

Of the 50 employees currently working within CASD, 23 have regular involvement with the APA Program. These 23 people are comprised of auditors located in three MAP/APA units and economists located in the Economic Services unit. The manager of the Economic Services unit in CASD also assumes the role of the CRA's APA Coordinator.

At the pre-filing meeting, the CRA will introduce its multi-disciplinary APA team that will be officially assigned to the process should a formal APA request be made. The APA team typically consists of a lead analyst and an economist from the CASD and an auditor from the taxation services office (TSO). The manager of the lead analyst has responsibility to ensure that the APA is completed in a timely manner. The TSO auditor assists CASD staff by providing specialized taxpayer and industry knowledge. The CASD has found this assistance invaluable in speeding up the review process. As required, Department of Justice lawyers may assist the CRA in the APA process.

The TSO auditor plays an additional role should the taxpayer seek a rollback of the APA to open tax years. Authority over the open tax years rests with the TSO auditor, who must gain a level of comfort with the applicability of the transfer pricing methodology in these prior years. Due to their participation in the APA review, TSO auditors will usually accept a rollback when it is requested at the same time as the filing of the APA request, and provided a request for contemporaneous documentation has not been issued.

To exercise its due diligence, the CRA may request to speak with key personnel within the taxpayer's firm as well as to visit relevant taxpayer sites for the purpose of evaluating the APA submission.

During the APA process, taxpayers may choose to represent themselves or engage assistance from the accounting, economic, and/or legal communities.

History of the APA Program in Canada



The APA concept was initiated by large multinational taxpayers who actively pursued a higher degree of certainty for their inter-company pricing. In Canada, our Program was initially established as a result of a co-operative joint pilot project with the Office of the Chief Counsel in the United States. From 1990 to 1992, two APAs were accepted by the CRA (then Revenue Canada) on a trial basis. Following a positive evaluation of the pilot project and continued taxpayer interest, the Program was formally launched in July 1993. Guidance to taxpayers followed in December 1994 with the release of Information Circular 94-4 *International Transfer Pricing – Advance Pricing Arrangements*.

In October 1994, the Pacific Association of Tax Administrators (PATA) Group, comprised of delegates from the tax administrations of Australia, Canada, Japan, and the United States, adopted Bilateral Advance Pricing Arrangement (BAPA) Guidelines. The Canadian delegation coordinated the preparation of these BAPA Guidelines, which were later used to create an Annex - *Guidelines for Mutual Agreement Procedure (MAP) APAs* - to the OECD's *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*.

During the 1994 to 1997 period, the number of APA requests in Canada grew dramatically. However, the area within the International and Large Business Directorate responsible for the competent authority function (Transfer Pricing & Competent Authority Division) was under-resourced and could not cope with the rising demand in both the APA and double tax caseload.

In late 1998 and early 1999, the Transfer Pricing & Competent Authority Division hired over a dozen auditors and economists to address the staffing shortage. Although these additional people were in place in 1999, significant training and on-the-job experience was still required.

The release of IC 87-2R *International Transfer Pricing* on September 27, 1999, caused a sharp increase in APA interest, with 20 pre-filing meetings and 10 acceptances in the 1999-2000 fiscal year.

In 2000, the International and Large Business Directorate commissioned an independent study of the APA Program. The findings of this study were subsequently implemented which led to reduced timeframes for APA completion and an increase in the number of APA requests.



In 2001, the Transfer Pricing & Competent Authority area was split into two separate Divisions – Competent Authority Services and International Tax Operations.

In March 2001, Information Circular 94-4R *International Transfer Pricing: Advance Pricing Arrangements* was issued.

In November 2002, the CRA's APA Program Development Strategy was released to the public. During the same month, initial consultations began regarding proposals for streamlined APA procedures for small business taxpayer APAs.

In June 2003, the CRA began to publicly issue an annual report for the APA Program.

In February 2004, the CRA launched a new service called APA First Step to introduce the Program to potential clients in a very timely and cost-efficient manner.

In April 2004, the Program received approval to refund excess cost recovery amounts to clients accepted into the APA Program after April 1, 2004.

In March 2005, the CRA issued IC94-4R(SR) *Advance Pricing Arrangements for Small Businesses* with the purpose of attracting interest in the Program from taxpayers that have historically represented a small portion of total APA requests.

In May 2005, the Competent Authority Services Division reorganized its four MAP units by specialization to maximize the effective use of its resources. The reorganization resulted in two MAP/APA Sections, a MAP-Technical Cases section and an Economic Services section. The MAP/APA sections handle MAP and APA cases related to transfer pricing issues, each with a manager and 5 analysts, and the MAP-Technical Cases section handles technical MAP cases not related to transfer pricing. The Economic Services Section, supervised by the Chief Economist/ APA Coordinator and consisting of 7 economists, provides economic analysis and research to the Division.

In June 2006, the CRA held its first public consultation session on the state of the APA Program. The purpose of the session was to highlight program changes and improvements made over the past several years as well as to solicit practitioners' views as to how the Program could be improved.

To handle the increasing MAP and APA workload, 2 economists were hired over the summer of 2007 and 9 analysts were hired in September 2007. A third MAP/APA section was formed and has been in operation since April 8, 2008.

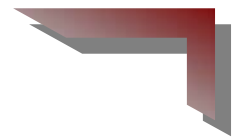
Current State of the APA Program (year end March 31, 2008)

During the year ended March 31, 2008 the CRA held 39 pre-filing meetings, accepted 22 taxpayers into the APA Program, and completed 8 arrangements.

In support of the APA Program, and in particular the APA Program Development Strategy, CRA officials made several presentations during the fiscal year ending March 31, 2008:



- May 2007 - Practitioners' Outreach Meeting – Toronto
- June 2007 - Internal CRA conference - Toronto
- Sep. 2007 - Practitioners' Outreach Meeting – Vancouver and Chicago
- Sept. 2007 - CUSLI (Canada-U.S. Law Institute) Conference - Vancouver
- Sept. 2007 - ABA (American Bar Association) Conference – Vancouver
- Sept. 2007 - Internal CRA conference – Moncton
- Oct. 2007 - Internal CRA conference – Montréal
- Oct. 2007 - CITE (Council for International Tax Education) Conference - Toronto
- Oct. 2007 - Practitioners' Outreach Meeting – Chicago
- Oct. 2007 - Tax Executive Institute Conference– Toronto
- Dec. 2007 - Practitioners' Outreach Meeting – Ottawa, Calgary and Toronto
- Dec. 2007 - Internal CRA conference
- Feb. 2008 - Practitioners' Outreach Meeting – Toronto



2007-2008 Average Time Statistics (in Days)

	Number of APAs	Time from APA Acceptance to Completion of Position Paper	Time to Negotiate APA	Time from APA Acceptance to Completion of APA
Unilateral	1	186	N/A	374
Bilateral/ Multilateral	7	503	122	999

Table 1

From the statistics presented in Table 1, the APA Program was able to achieve, on average, its target of preparing an APA position paper in less than 365 days for unilateral APAs. For bilateral APAs, the CRA was not able to achieve, on average, its target of completing a position paper within the same one-year timeframe. One of the bilateral APAs completed in 2007-08 involved a consignment issue that delayed the development of the position paper, and in another large and complex case preliminary discussions were held with the foreign competent authority which delayed the development of the position paper. The CRA plans to reduce such delays by developing more specialized expertise to deal with specific industries/sectors and or issues.

The average time spent for the negotiation of bilateral/multilateral APAs (122 days) was within our target timeframe (180 days). We continue to believe that resolution should be achieved for most cases within the target timeframe.

As noted in previous Annual Reports, delays in closing an arrangement (with the taxpayer) persist and continue to be a challenge that affects our overall target timeframes. While we target 730 days to complete the APA process from acceptance to closing, it is taking 318 days on average to close a bilateral APA with the taxpayer and 188 days in the case of a unilateral APA. This is the stage of the process after the APA has either been successfully resolved with a foreign tax administration (in the case of a bilateral APA) or after a draft position paper is presented to the taxpayer (in the case of unilateral APA). We would like to shorten this timeframe considerably, and continue to be open to suggestions from tax practitioners or taxpayers on how best to achieve this goal.

In future program reports, the CRA will introduce additional statistics that will allow stakeholders to better understand the Agency's performance relative to published milestones. The CRA also hopes to introduce comparative statistics by requestor relating to APA milestones while maintaining taxpayer and representative anonymity.

Due to a significant number of departures from CASD in prior years, staffing levels have been significantly impacted over the past few years. While a few vacancies remain to be filled, a hiring process to attract qualified personnel to handle the APA workload was concluded in September 2007. Both formal and on-the-job training has been initiated for these individuals. While the addition of new members to our team will definitely help to alleviate some of the pressures on existing staff as new hires gain experience and become more knowledgeable about competent authority processes, we expect some continued delays in APA completions.

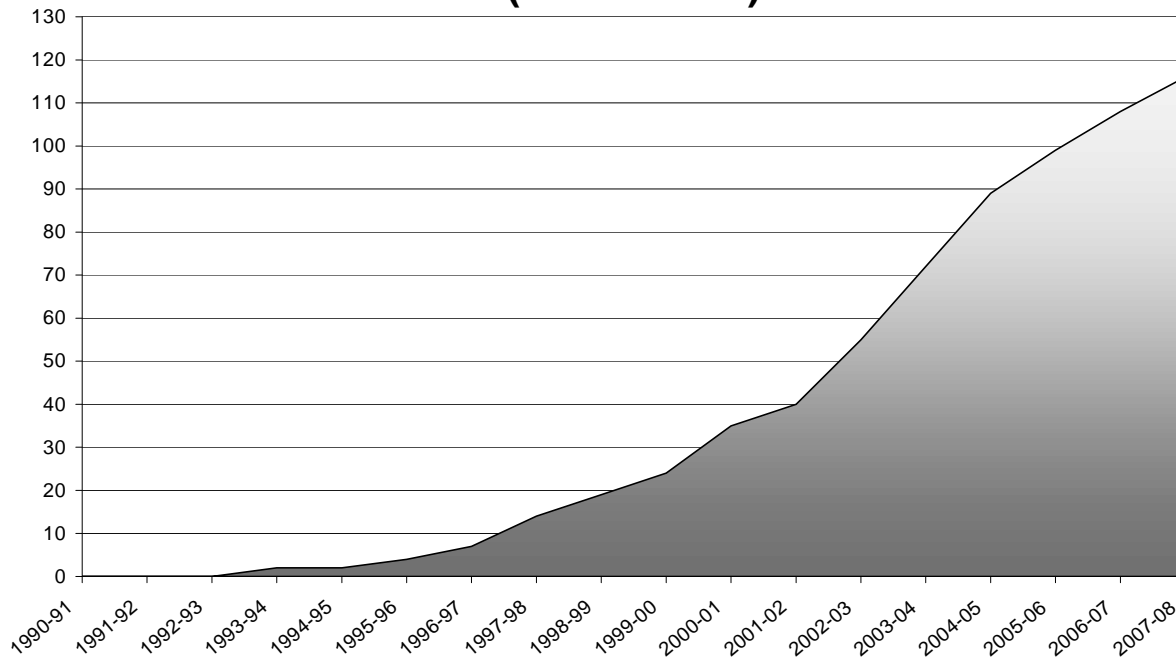
As shown in Table 2, the CRA’s APA Program completed 8 APAs, which is approximately the same number of APAs completed in the prior fiscal year. In more recent years, the Agency has seen a significant growth in the number of taxpayers expressing an interest in the APA program. During the 2006-2007 fiscal year, the CRA conducted 26 prefile meetings, an increase of 44% over the previous fiscal year, and during 2007-2008 39 prefile meetings were held, an additional 33% growth over the previous year. Since the 2005-2006 fiscal year, there has been a growth in potential workload of nearly 120%.

Program Statistics

Fiscal Year	Starting Inventory	Accepted	Completed	Unresolved	Ending Inventory	Pre-Filing Meetings	Withdrawn
1990-91	0	1	0	0	1	1	0
1991-92	1	0	0	0	1	0	0
1992-93	1	2	0	0	3	7	0
1993-94	3	3	2	0	4	4	0
1994-95	4	8	0	0	12	10	0
1995-96	12	7	2	0	17	9	0
1996-97	17	17	3	0	31	15	0
1997-98	31	6	7	2	28	7	0
1998-99	28	1	5	0	24	5	3
1999-00	24	10	5	0	29	21	3
2000-01	29	11	11	0	29	3	1
2001-02	29	13	5	0	37	17	0
2002-03	37	15	15	0	37	15	1
2003-04	37	17	17	0	37	21	3
2004-05	37	14	17	1	33	24	3
2005-06	33	16	10	0	39	18	4
2006-07	39	17	9	0	47	26	6
2007-08	47	22	8	0	61	39	0
Total		180	116	3			

Table 2

Completed APAs (cumulative)



It has been hypothesized that, at least in part, some of this growth can be attributed to taxpayers' interest in gaining tax certainty on their international transactions with the advent of Fin 48¹. However, it is apparent that this cannot entirely account for program growth as a number of new APA applications involve related parties in jurisdictions other than the U.S. Whatever the reason, based upon our experience to date and some informal environmental scans, the CRA expects that this growth is likely to continue into the foreseeable future.

To address this growth in workload, the CRA is exploring a number of initiatives to gain efficiencies and expedite the completion of files. Among these include measures to: better utilize technology (such as video-conferencing) to minimize time spent away from the office; the possibility of eliminating/reducing site visits on renewal applications where it can be reasonably ascertained that there has not been a material change to the functions, assets and risks of the parties to the transactions; the possibility of extending the period of coverage to provide taxpayers with true prospective certainty; additional and more rigorous due diligence at the application stage of an APA to better assess the suitability of candidates and reduce the time spent on fact gathering during the process; and the development of specialized expertise to expedite the resolution of APAs and ensure consistency in the treatment of issues and cases.

¹ The Financial Accounting Standards Board (FASB) issued interpretation no. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48).

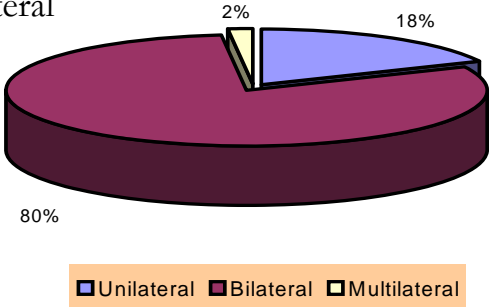
In the interim, adequate resourcing levels to meet the growing demand for APAs will be a significant challenge for the Agency. To manage our ability to meet our published service standards, the CRA will continue to monitor inventory levels and assess the effectiveness of efforts to gain efficiencies, while taking the necessary steps to ensure appropriate resources are in place to fulfill our obligations.

APA Type

	Unilateral	Bilateral	Multilateral	Total
Completed	22	92	2	116
In Progress	10	50	1	61
Total	32	142	3	177

Table 3

Table 3 shows the distribution of APAs by type - unilateral, bilateral, and multilateral. Both the CRA and applicants are focused on bilateral arrangements, which provide, along with multilateral APAs, the highest degree of tax certainty.

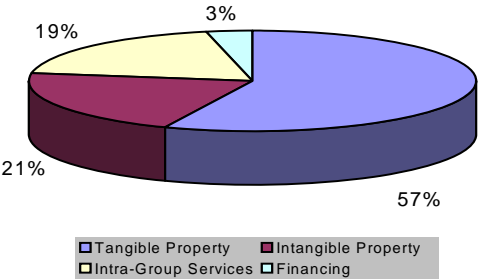


APA Issue

	Tangible Property	Intangible Property	Services	Financing	Total
Completed	64	23	23	6	116
In Progress	36	14	11	0	61
Total	100	37	34	6	177

Table 4

Table 4 shows that a number of recent APA requests have been related to tangible goods transactions and, to a lesser extent, intangibles. When compared to our 2006-07 annual report, the number of APAs involving tangible goods transactions as the primary transaction has increased by 14. In the same period, there has been an increase of 7 services transaction APAs and an increase of 3 APAs involving intangibles. There are currently no APAs involving financial products.



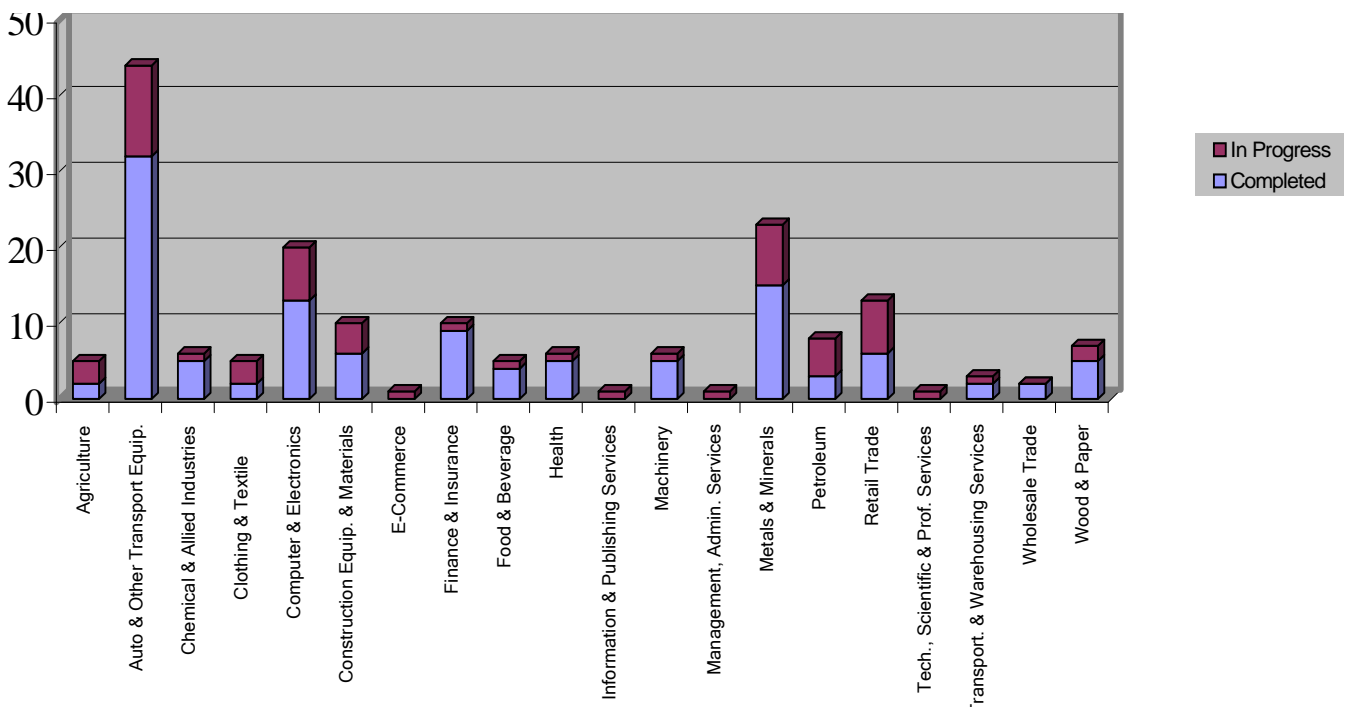


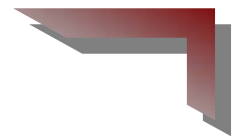
	Completed	In Progress
Agriculture	2	3
Auto and Other Transportation Equipment	32	12
Chemical and Allied Industries	5	1
Clothing and Textile	2	3
Computer and Electronics	13	7
Construction Equipment and Materials	6	4
E-Commerce	0	1
Finance and Insurance	9	1
Food and Beverage	4	1
Health	5	1
Information and Publishing Services	0	1
Machinery	5	1
Management, Administrative Services	0	1
Metals and Minerals	15	8
Petroleum	3	5
Retail Trade	6	7
Technical, Scientific & Professional Services	0	1
Transportation and Warehousing Services	2	1
Wholesale Trade	2	0
Wood and Paper	5	2
Total	116	61

APA By Industry

Table 5

The results in Table 5 basically align with the Canadian economy, with automotive, natural resource, and hi-tech companies being significant APA players.





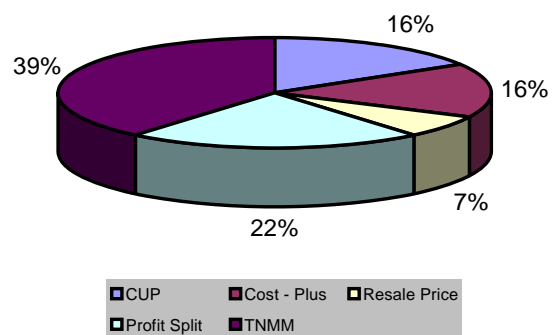
APA by Transfer Pricing Methodology

Table 6 shows the transfer pricing methodologies proposed or implemented in Canadian APAs. The transactional net margin method (TNMM) is now the predominant TPM, accounting for approximately 40% of all APAs completed or in progress, followed by the profit split method which represents 22% of our APA workload. Note that where an APA is in progress, the methodology reported is normally that proposed by the taxpayer, although in some cases it may be the TPM proposed by the CRA, if an alternate approach was chosen as a result of its analysis. Data reported under the cost-plus method includes services transactions as well as cost sharing arrangements.

TPM	Completed	In Progress	Total
CUP	19	10	29
Cost - Plus	14	14	28
Resale Price	11	1	12
Profit Split	29	10	39
TNMM	43	26	69
Total	116	61	177

Table 6

APA by TPM (%) →



The use of a profit split methodology in a large number of APAs reflects the CRA's view that it often provides a result more in keeping with the arm's length principle than the TNMM when reliable comparable transactions are not available. The profit split methodology is also applicable for transactions between highly integrated companies or when non-routine intangibles are involved (paragraph 97 of IC87-2R *International Transfer Pricing*). In addition, nearly all covered transactions involving royalty payments are resolved using the profit split methodology on its own or as a test to determine a reasonable rate.

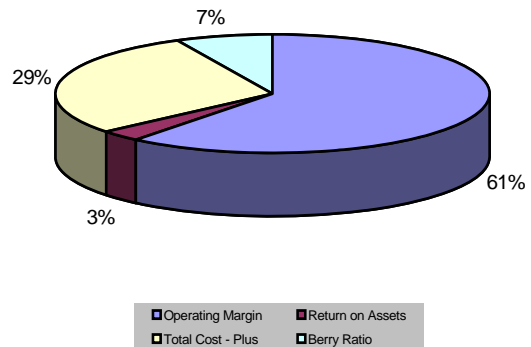
APA by Profit Level Indicator (using TNMM)

	Completed ¹	In Progress/ Proposed ²	Total
Operating Margin	25	17	42
Return on Assets	2	0	2
Total Cost - Plus	12	8	20
Berry Ratio	4	1	5
Total	43	26	69

Table 7

Note: ¹ PLIs shown under “Completed” APAs represent those used in the actual arrangement.
² PLIs shown under “In Progress/Proposed” APAs represent those found in the CRA position paper or, if not yet developed, those found in the taxpayer submission.

APA by PLI (%)



As shown in Table 7, when the TNMM is used for a covered transaction, the most dominant profit level indicator (PLI) continues to be the operating margin, accounting for 61% of all TNMM transactions. This PLI is most often applied to transactions involving Canadian or foreign distributors which have neither contributed to the creation, nor the exploitation, of non-routine intangibles.

The total cost-plus method is the next most frequently used PLI when the TNMM is selected and represents 29% of all such transactions. This PLI is most often applied to transactions involving Canadian or foreign manufacturers, which have similarly not contributed to the creation or exploitation of non-routine intangibles.

Although assets may be used by the CRA as a screening criterion when searching for comparable transactions, the CRA and its treaty partners have not selected this PLI for use in many APAs. However, a return on asset PLI has been considered for a Canadian APA where the plant was relatively new. Because, at an earlier stage, measurement does not pose as significant an issue, the age of plant property and equipment can play a role in the choice of an appropriate PLI. In this APA, the CRA will be reviewing the ongoing reliability of the return on asset PLI by comparing the results against a total cost-plus PLI.

The Berry ratio (gross profit/operating expense) PLI has now been applied in five APAs. Three of the cases involved a service organization that trans-shipped goods, but had no sales function. The other two cases involved a sales organization where application of an operating margin PLI would have been less reliable due to the presence of both non-arm's length purchases and sales. Although the CRA uses operating expense intensity (operating expense / net sales) as a screening tool when searching for comparable transactions, historically the CRA and its treaty partners have not selected this PLI over an operating margin PLI.

APA by Country

Country	Completed	In Progress	Total
Australia	7	0	7
Austria	0	1	1
Denmark	1	1	2
France	0	1	1
Germany	1	0	1
Japan	8	4	12
Korea	0	1	1
New Zealand	1	0	1
United Kingdom	4	3	7
United States	72	40	112
Total	94	51	145

Table 8

Table 8 shows the number of bilateral and multilateral APAs concluded and in progress with various countries. As expected, based on our respective country's trade flows, the United States is our dominant treaty partner country when it comes to APAs. The CRA is encouraged by, and has even provided assistance to, other tax administrations implementing their own APA Programs. As expressed in the 2006-2007 annual report, the CRA entered into the APA process with three new countries: Austria, France and Korea. Based on pre-filing meetings and expressions of interest from taxpayers and tax practitioners, we hope to continue to grow the geographic coverage of the APA program by collaborating with two new countries by next year.

APA by Country (%)





APA by Completion Time

Tracking the amount of time to complete an APA is best measured with reference to the year in which it was accepted. All times are measured from the date of acceptance. Acceptance is typically given after CASD reviews the APA request to ensure its completeness and reasonableness. Table 9 provides the average time to complete an APA accepted in an individual year. The completed and accepted columns allow one to determine the approximate age of APAs currently in progress.

Fiscal Year Accepted	Years	% Complete	APAs Accepted	APAs Completed	Unresolved ¹
1990-1991	3.5	100%	1	1	0
1991-1992	0	100%	0	0	0
1992-1993	0.8	100%	2	1	1
1993-1994	3.1	100%	3	3	0
1994-1995	3.2	100%	8	7	1
1995-1996	4.3	100%	7	7	0
1996-1997	3.6	100%	17	17	0
1997-1998	4.1	100%	6	6	0
1998-1999	3.7	100%	1	1	0
1999-2000	2.8	100%	10	10	0
2000-2001	3.0	100%	11	11	0
2001-2002	2.8	85%	13	10	1
2002-2003	2.3	87%	15	13	0
2003-2004	2.3	82%	17	14	0
2004-2005	1.5	50%	14	7	0
2005-2006	1.6	31%	16	5	0
2006-2007	1.2	18%	17	3	0
2007-2008	0.0	0%	22	0	0
Average	2.4				

Table 9

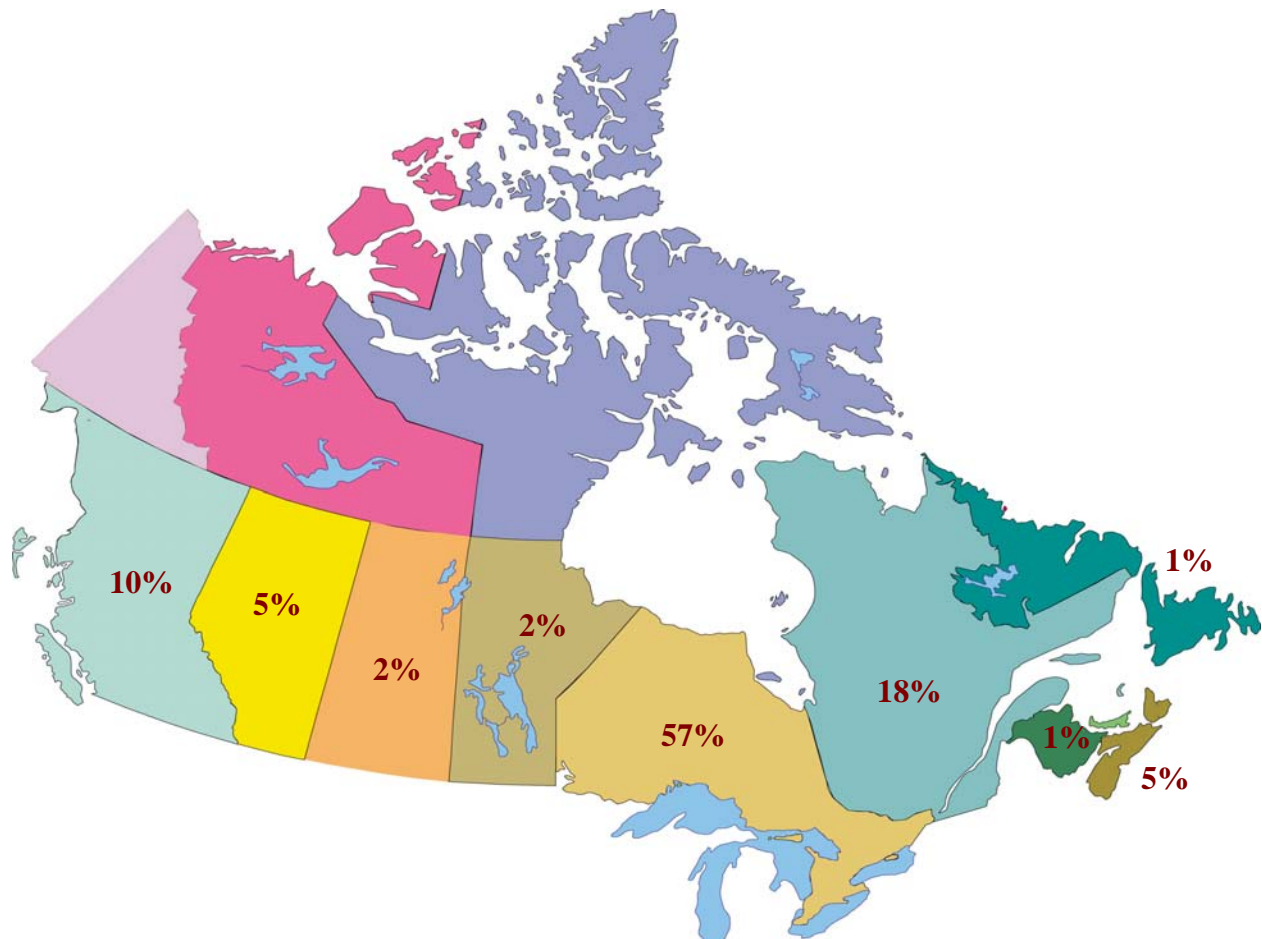
Note: ¹ APAs that were concluded with a foreign tax administration but rejected by the taxpayer; or a unilateral APA presented to the taxpayer but rejected; or a case that the two competent authorities could not resolve.

APA by Province

The results in Table 10 should bear some resemblance to the location of the operating headquarters for Canadian companies involved in related party transactions. This data identifies areas in Canada that may be under-represented, thus deserving further attention when marketing the CRA's APA service.

Province	Completed	In Progress	Total
British Columbia	10	7	17
Alberta	4	5	9
Saskatchewan	3	1	4
Manitoba	2	1	3
Ontario	66	35	101
Quebec	25	7	32
Nova Scotia	5	4	9
New Brunswick	0	1	1
Newfoundland	1	0	1
Total	116	61	177

Table 10



Competent Authority Services Division Organizational Chart





MAP/APA Contacts

Competent Authority Services Division

Director	
Spice, Patricia	941-7831
Treaty Specialist	
Nguyen, Tam	941-2829
Administrative Services	
Lapensée, Nicole	941-2768
Bélanger, Chantal	948-7719
Sheldrick, Cathy	948-7718

Mutual Agreement Procedure – Advance Pricing Arrangement Section 1

Manager	
Gray, Rémi	957-8859
Booth, Lisa	941-2842
Dukkipati, Sudha	941-2794
Godbout, Michel	946-0192
Kim, Alice	941-1567

Mutual Agreement Procedure – Advance Pricing Arrangement Section 2

A/Manager	
Quinn, Dan	941-2789
Dougherty, Dave	952-3495
Greenberg, Samantha	957-7281
Senecal, Claude	941-2785
Zappavigna, Antonio	948-3428

Mutual Agreement Procedure – Advance Pricing Arrangement Section 3

Manager	
Busby, Brian	941-2802
Loftman, Earle	948-3429
McSpaden, Chuck	941-2777
Wang, Amy	941-2687
Wojcik, Audrey	941-2803

Mutual Agreement Procedure – Technical Cases

Manager	
Wilson, Jim	948-3424
Hassan, Nadia	946-7139
Maggiore, John	941-7813
Massicotte, Patrick	948-3427
Ng, Connie	946-2778

Economic Services

A/ Manager & Chief Economist	
Keshvani, Shiraj	941-7801
Buchardt, Bruce	941-2844
Courtily, Richard	941-2838
Danforth, Jeff	941-2836
Iwinski, Art	941-2843
Lukie, Chris	957-1610
Sudds, Jenna	941-1567



If you have any comments, feedback or questions about this report or the services of the Competent Authority Services Division, telephone 613-941-2768, email us at CP-PO_MAP-APA_PAA-APP@cra-arc.gc.ca, or write to us at the following address:

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Director, Competent Authority Services Division
International and Large Business Directorate
Compliance Programs Branch
5th Floor, 344 Slater Street
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