

China issues 2016 Advance Pricing Agreement Annual Report

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On 8 October 2017, the PRC State Administration of Taxation (SAT) published the China Advance Pricing Agreement (APA) Annual Report (2016) (the 2016 Report). The 2016 Report covers statistical data and analysis for the calendar years from 2005 to 2016.

Key features of the 2016 Report:

- ▶ The 2016 Report reiterates that the quality of the value chain and a location specific advantages analysis are key factors in the SAT's decision whether to prioritize the taxpayer's APA application. An application that includes innovative application of transfer pricing methods or high quality quantitative analysis for intangibles, cost savings or market premiums will be prioritized by the SAT for APA processing.
- ▶ The 2016 Report emphasizes that the enterprise's APA renewal application will be rejected if the calculated weighted average operating price/profit of the enterprise for the APA-covered period falls below the median of the agreed range and is not adjusted to the median.
- ▶ According to the 2016 Report, the cumulative total of APAs signed was 139, consisting of 84 unilateral and 55 bilateral APAs. In 2016, eight unilateral and six bilateral APAs were signed, many of which were completed within two years from the acceptance of the applications. The bilateral APAs consisted of three with European and three with Asian countries. Most of the APAs that were signed in 2016 related to the manufacturing industry, but report also demonstrates that enterprises engaged in other industries are beginning to consider filing APA applications.

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EYG no. 06540-171Gbl

1508-1600216 NY
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