



PART ONE:
EXECUTIVE SUMMARY

Executive Summary - Qualitative Phase

The APA is a Great Concept But...

- The concept of an APA is great but the lengthy and costly approvals process due to insufficient CCRA staff in the past and a mindset amongst APA staff that is inconsistent with the overall objective of reaching acceptable solutions to all participants have diminished the value of the program.
- It should be of concern that there are split opinions relative to a number of the benefits that should result from an APA program.
- Despite this, most organizations need the certainty that the APA can provide and are willing to persist.
- There is a need to address the concerns of both clients and outside tax advisors in the near term and to communicate the changes that are being implemented to this very “close-knit” community of tax professionals. There is a sense from current participants that CCRA should get its house in order prior to increasing the scope of the APA.

Executive Summary - Qualitative Phase

While the APA in general is viewed as a great concept, the CCRA program is only viewed in a somewhat favourable light.

- International transfer pricing is an issue that is growing in importance for these companies.
- International transfer pricing is largely viewed as a compliance / audit issue and is not being used as a management tool to create strategic advantage for these organizations.
- APA programs are generally viewed very favourably as they are seen as a proactive approach to avoid unpleasant surprises.

Executive Summary - Qualitative Phase

CCRA is Blamed for Most of the Delays in Approvals

- Although some admit that the companies and other governments are partially to blame, the greatest portion of blame for the undue length of the approvals process is assigned to CCRA.
- There are two major reasons identified as causing these delays:
 - Lack of sufficient, well-trained staff in the APA program unit. (Some sense that the headcount issue is being resolved, but the new additions are not well trained)
 - A mindset within the CCRA program personnel that they are searching for an exact answer and not a close, acceptable answer. A number say that the APA program team members appear to be unwilling to make decisions. Others also say their mindset includes being protective of Canada's revenue sources and in some circumstances to the point of aggressively seeking new revenues.(Some say they are understanding of this)

Executive Summary - Qualitative Phase

Most Would Apply for an APA Again

- Despite the length of time and cost to obtain an APA, most respondents would make the same decision again to apply for one. There are a number of organizations who were early program participants who say they are reluctant to participate again.
- The alternatives, either a bad audit, double taxation or non-deductible penalties and interest, are less acceptable options of handling international pricing disputes for most. There are some tax advisors who feel that documentation that will hold up under Section 247 is a better alternative given the delays and costs associated with an APA.
- Once approved, the certainty of treatment provided by an APA is a benefit that outweighs the time, frustration and cost of the application process.
- The APA Program enhances users impressions of CCRA as a whole.
- There is split opinion as to whether or not the process is much too expensive relative to the benefits achieved.

Executive Summary - Qualitative Phase

Many Would Recommend To Others, But With Conditions...

- Many would recommend to others but usually under certain specified conditions.
 - »»» *“Not unless being audited”*
 - »»» *“Yes, if they can afford”*
 - »»» *“If they have complex issues or a specific need for certainty”*
 - »»» *“When CCRA develops more of a positive track record”*
 - »»» *“Not practical for smaller companies”*. This opinion varies by country with US tax advisors being more positive about the value than an APA can provide to a medium sized company.

The Search for Certainty is Driving the Desire for APA's...

- The APA is geared primarily to the elimination of double taxation
- The main benefit is the “certainty of treatment” provided to the stakeholders in each organization and the resulting comfort level for all stakeholders

Executive Summary - Qualitative Phase

The Value and Benefits of an APA are Being Diluted...

- Each of the following statements receive mixed agreement and should be some cause for concern:
 - »»» The APA is much too expensive relative to the benefits achieved
 - »»» The APA provides my organization with a discipline by providing a forum to present arguments regarding transfer pricing issues
 - »»» The APA staff operate in a supportive fashion
 - »»» The on-going reporting requirements greatly diminish the value of the APA for our company
 - »»» The APA is not an adversarial approach

Executive Summary - Qualitative Phase

Many Positive Words are Used to Describe CCRA APA Staff, However, Flexible and Customer Oriented Are Not Among Them

- Applicants and outside tax advisors credit APA staff with being professional, conscientious, reliable, easy to work with and knowledgeable.
- Negative perceptions of staff include being bureaucratic, inflexible (not open to different viewpoints) and lacking in understanding of some of the industry sectors they are working in (financial services, high technology companies). Many say that APA staff are reluctant or incapable of making decisions.
- The positive words provide a good base upon which to improve those words less associated with the APA staff during the period ahead when CCRA works to reduce the length of the approvals process.

Executive Summary - Quantitative Phase

Market Potential

- The market potential for the APA in the next few years would appear to equal the number of participants that have entered the program since its inception.

International Transfer Pricing

- International transfer pricing is an issue that is growing in importance and APA programs in general are one of a number of methods of dispute resolution that are viewed reasonably favourably by clients and outside tax advisors
- Approximately one in two large companies report having international transfer pricing issues, while the incidence drops to one in five for medium sized companies

APA Program Offered By CCRA

- Six of ten of those interviewed say they are aware of the CCRA's APA program. Almost seven of ten report having a favourable overall impression of this program.
- The certainty of treatment and the avoidance of negatives (double taxation, penalties) are the primary benefits provided by an APA. Other benefits are also seen as important, including the assistance that an effective APA program can have in helping the country attract investment.
- There is however, a general sense that obtaining an APA takes far too long and is too costly.

Executive Summary - Quantitative Phase

APA Program Offered By CCRA (cont'd)

- Some key findings suggest some direction for the positioning of the APA program. The program is perceived to be a way of avoiding negatives and achieving certainty, however, it is seen by a significant minority as an adversarial approach. In addition, one in five do not feel that the program provides complete confidentiality of company information. Seven of ten outside tax advisors feel that the APA is only of use for very large companies.
- There is a general sense that the APA provides slightly more benefits to the CCRA than it does to the taxpayers.
- There is majority support for the practice of billing back travel expenses to the applying taxpayer.
- There is good support, especially with outside tax advisors, for having the APA applied to cover approximately 3 previous years.

Importance of Outside Accountants and Lawyers

- Outside tax accountants and, to a lesser extent tax lawyers, are the sources most relied upon by corporate executives for APA information. This has implications for the Agency in determining future communications strategies and plans.



Implications

IMPLICATIONS

- To date, it has been a relatively small community of organizations involved with APA programs. There does, however, appear to be a good market potential for the APA, especially with larger companies.
- There is also a reasonable market with medium sized firms. The feeling of tax advisors that the APA is only of use for large companies, while not shared by medium sized clients, may be a barrier for the program in attracting a significant number of medium sized companies.
- Prior to rolling the program out to new interested companies, there would appear to be a need to resolve some of the long outstanding applications expeditiously.
- There is a positive story for CCRA staff to hear. The program is viewed favourably, has strong benefits associated with it, a majority see the program as an asset for Canada in attracting new investment and has a market of large and medium sized companies saying they are very likely to use an APA in the next few years almost equal to the number of clients who have applied since 1993.
- This having been said, a number of improvements can be made to the operation of the program.
- There is a need to work at reducing the average time necessary to obtain an APA down from the current 3.5 years to a more reasonable time period. Steps need to be taken to address the time necessary to obtain an APA and those steps communicated to the interested stakeholders. This has implications for staffing levels and training programs for new additions to the APA program teams.
- There would appear to be a need to change the mindset of APA program personnel with respect to the preciseness with which they approach the task and with respect to the dominance they appear to assign to the task of revenue protection.

IMPLICATIONS (CONT'D)

- The key findings of this research suggest some direction for the positioning of the APA program. It is not universally seen as non-adversarial, as keeping company information confidential, or as being important for satisfying section 247 requirements or in clearing up past problems.
- Senior management of the APA group should review the detailed suggested changes made in the body of this report to determine those that could be of value in improving the effectiveness and efficiency of the program.
- Because of the importance of outside tax advisors to clients, special attention should be paid to them in any communications plan or strategy that is adopted.
- Consideration might be given to adopting a three year optional rollback of the provisions of the APA for approved applicants.
- While there is majority support for the practice of billing back travel expenses to the applying taxpayer, the feeling regarding the proportion of benefits accruing to CCRA might justify a re-think of this practice.
- Consideration might also be given to sharing the results of both the qualitative and quantitative surveys with clients, applicants and outside tax advisors. The approach of saying we asked for your comments, we have heard you and this is our plan to address these issues could be very beneficial.