



## **PART THREE:**

# ***DETAILED QUANTITATIVE FINDINGS***

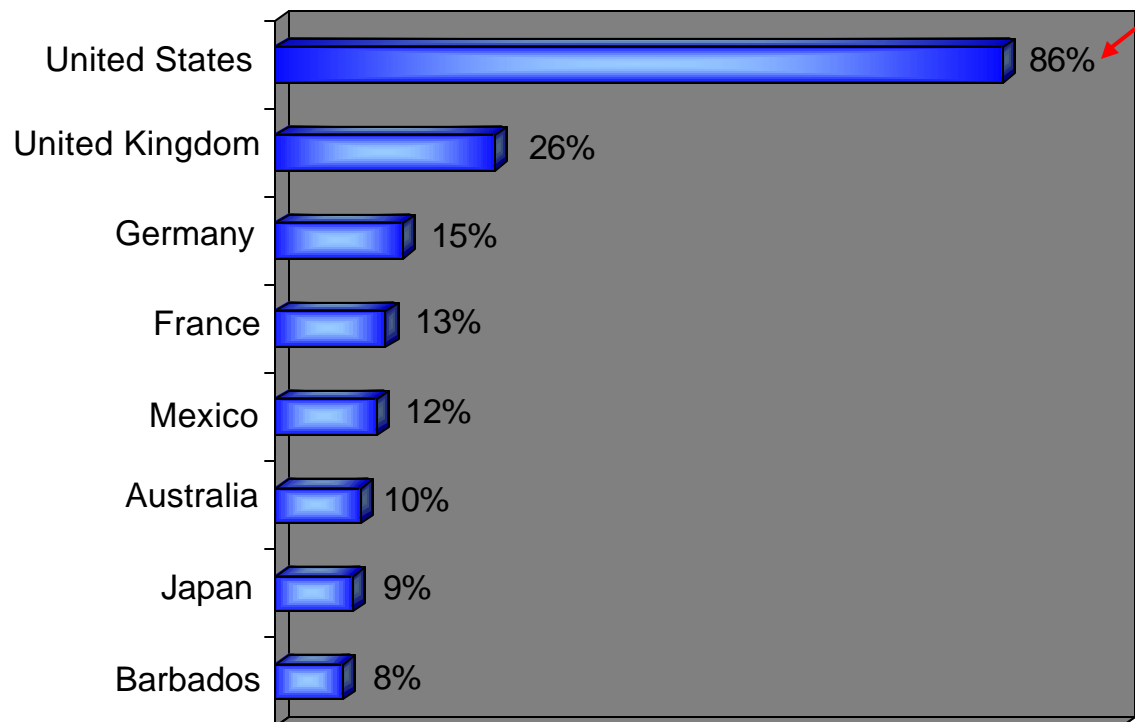


# *Understanding International Transfer Pricing Issues*

# Jurisdictions Of International Involvement

- Not surprisingly, given Canada's proximity and economic history, the vast majority of medium and large sized companies represented in the survey say they conduct non-arms length transactions with the United States. Slightly over one-quarter (26%) also say they are involved with companies based in the United Kingdom.
- Knowledge of geographic areas of involvement will become important in anticipating where the demand will come from for bilateral APAs.

Among Large/Medium Client Companies  
(n=191)



Q. You indicated earlier that your organization has cross border transactions with non-arms length organizations. In which countries do you have these cross border transactions?

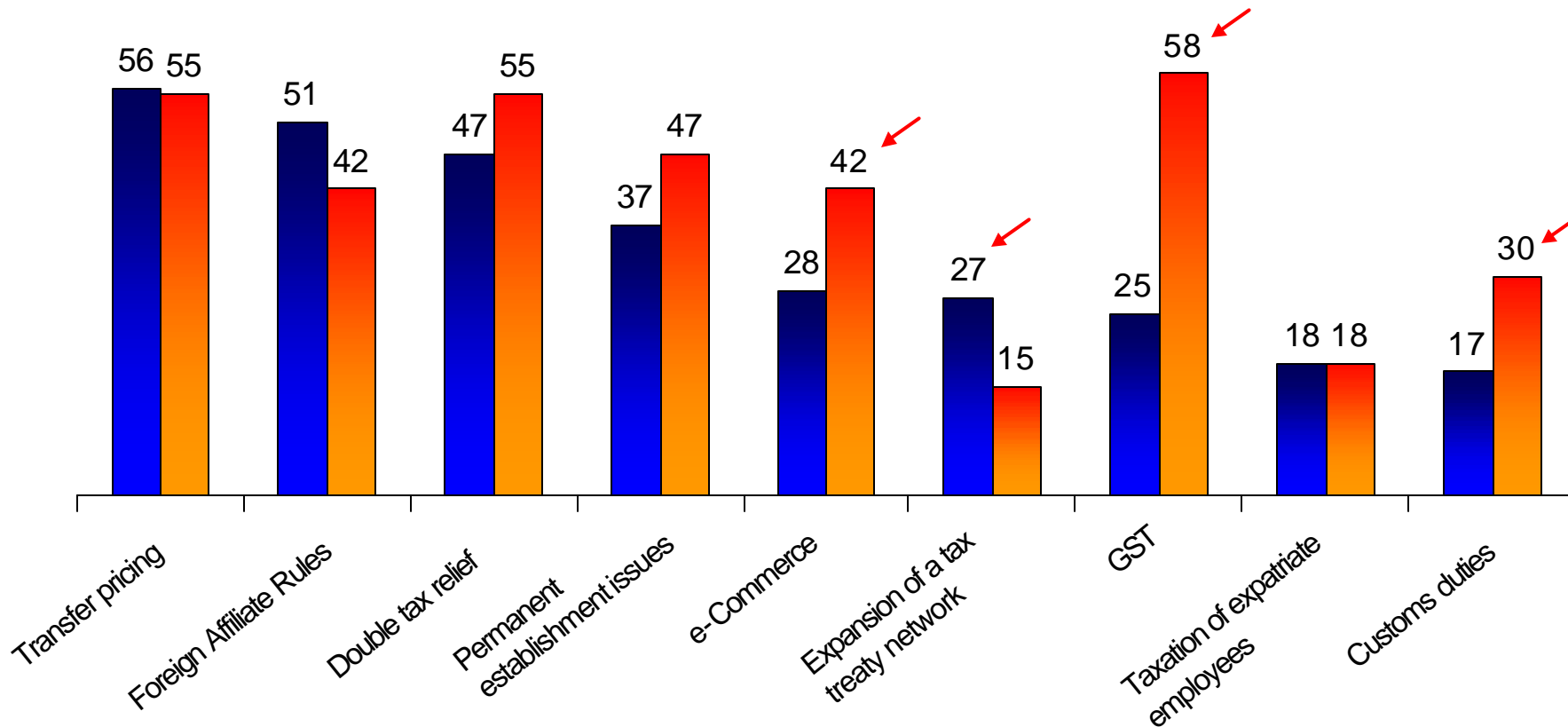
# Importance of Various International Tax Issues

- A large portion of both clients and advisors give a high importance rating to: transfer pricing, Foreign Affiliate Rules, double tax relief, and to a less degree, permanent establishment issues.
- There are a few areas where the ratings of clients and advisors differ. The most remarkable difference concerns the importance of GST. Almost six in ten advisors feel this is an important area for their clients, whereas only one in four clients echo this sentiment.

% of Respondents Saying Issue Is Important  
(8, 9, 10 on 10-pt. scale)

↘ = A statistically significant difference between the two groups

■ Lg./Med. Companies (n=191)  
■ External Tax Professionals (n=60)



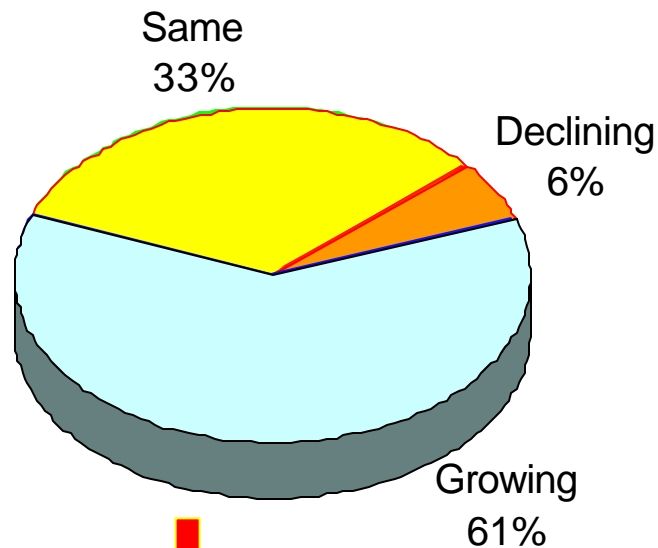
Q. Please indicate on a 1 to 10 scale where 10 means it is very important and 1 means it is not at all important, the extent to which each of the following international tax issues are considered important for your organization (your clients) in the next 1-2 years.

# International Transfer Pricing Is Clearly An Issue That Is Growing In Importance

- While the majority of both clients and advisors feel that international transfer pricing issue are growing in importance, advisors are significantly more likely to feel this way.

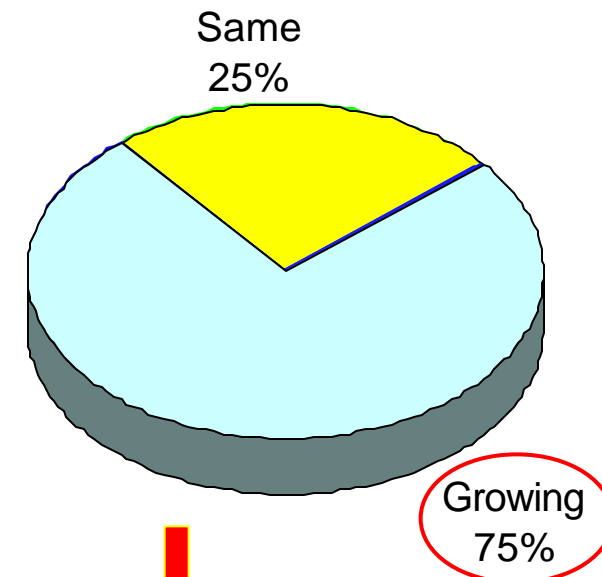
## Is international transfer pricing .....in importance?

Among Large/Medium Companies  
(n=191)



- Those most likely to say issue is "growing" in importance:
- Companies likely to apply for an APA 78%
  - High tech companies (small base) 86%
  - Resource based companies 73%
  - Subsidiaries 74%

Among External Tax Professionals  
(n=60)

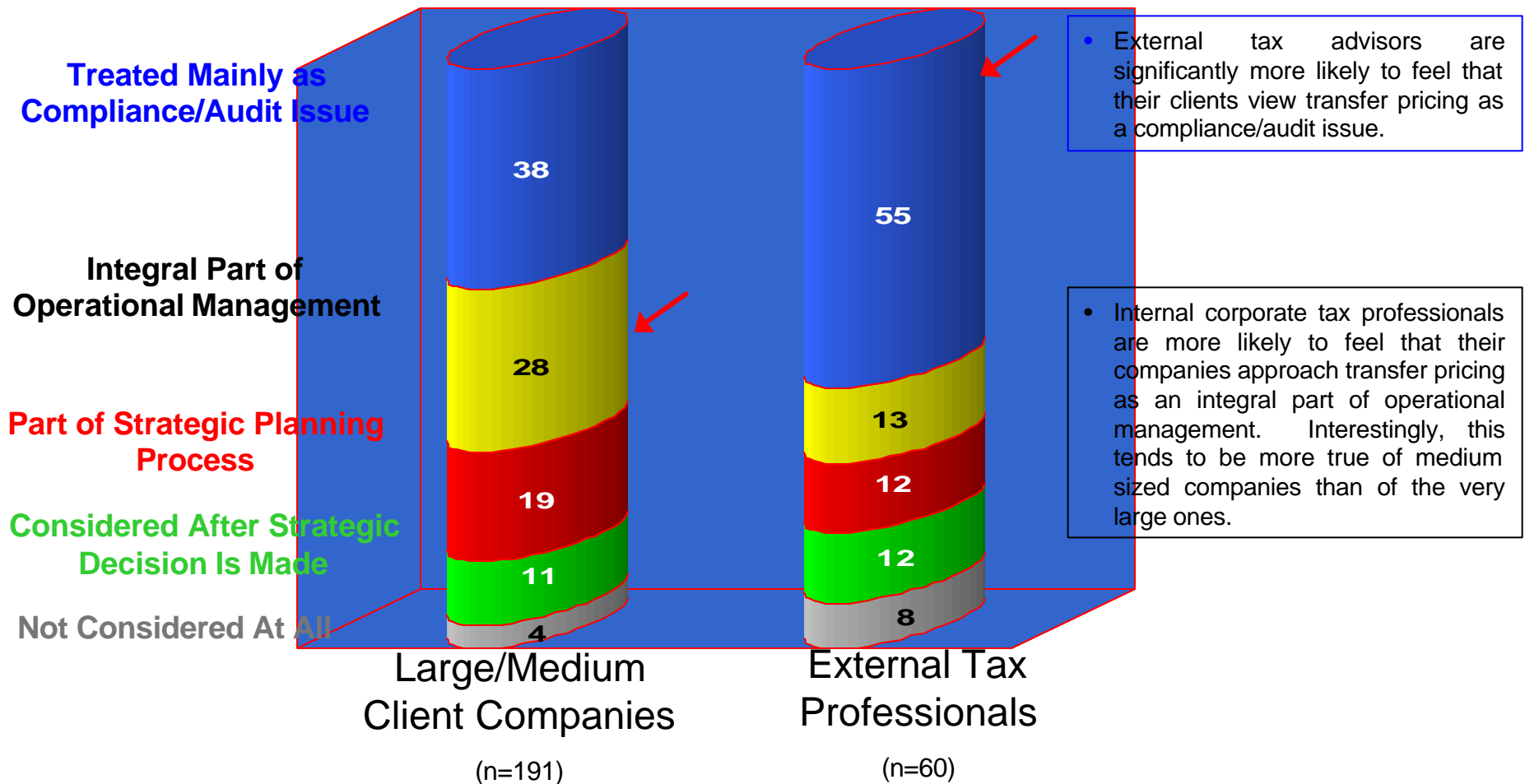


There are no significant differences within the various data breaks.

Q. Is international transfer pricing an issue that is growing in importance, staying the same in importance or declining in importance for your company (your clients)?

# Tax Advisors Are More Likely To Say That Transfer Pricing Is A Compliance Issue

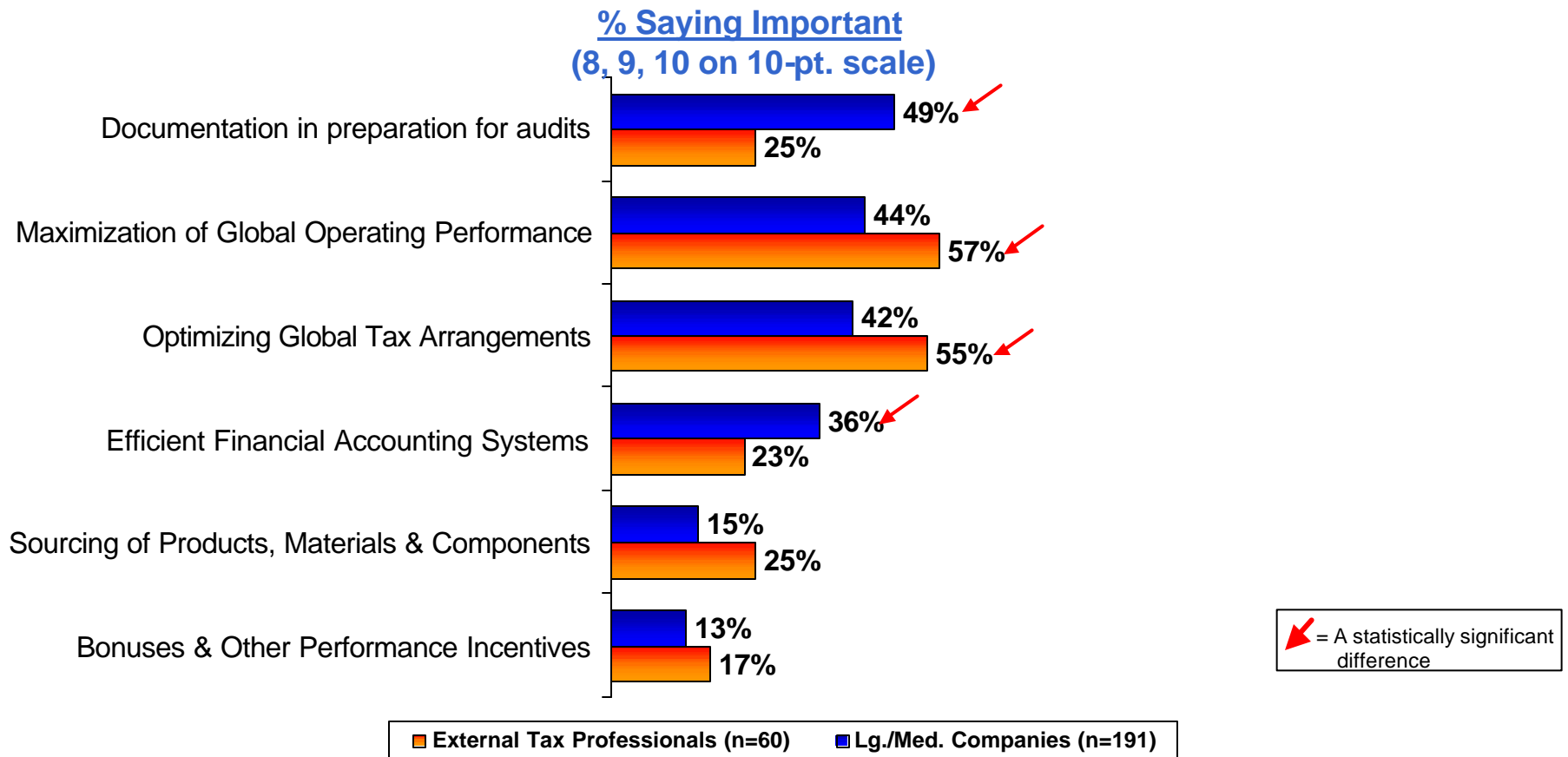
## Best Describes Role of Transfer Pricing



Q. Which of the following best describes how transfer pricing is treated within your organization (your clients organizations)?  
Transfer pricing is ...

# Importance Of Factors in Establishing Transfer Pricing Issues

- There is a considerable disconnect between the perspectives of “clients” and advisors with regard to the importance of factors shaping transfer pricing policies.
- Clients are more likely than advisors to say efficiency of accounting systems and documentation needs to prepare for audits shape transfer pricing issues.
- Advisors, on the other hand, place more emphasis on the importance of results issues like maximizing global performance and optimizing global tax arrangements.



Q. There are a number of factors that could shape the transfer pricing policies of an organization. Could you please tell me how important each of the following are to your company (your clients) in establishing its transfer pricing policies. Please indicate on a 1 to 10 scale where 10 means it is very important and 1 means it is not important at all.



# *Perceptions Of Dispute Resolution Methods*

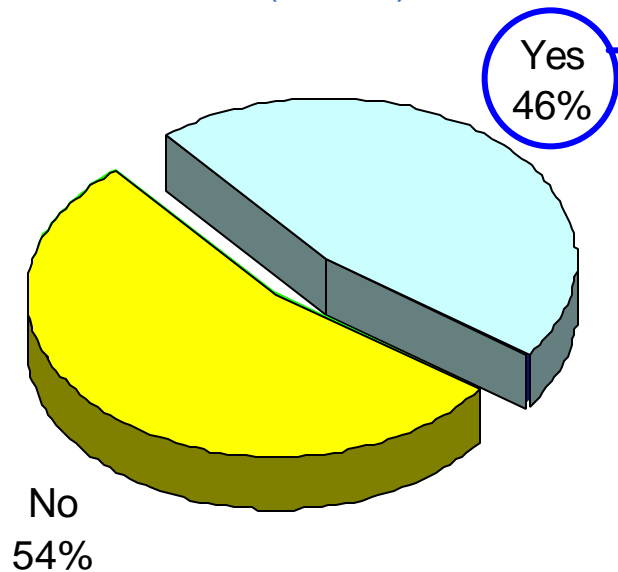


# Incidence Of Transfer Pricing Methodology Being Subject To Audit

- Among the large and medium sized companies surveyed, there was almost equal likelihood of them having had their transfer pricing subject to an audit or examination.

Has Your company's transfer pricing ever been the subject of an audit / examination by any tax authority?

Among Large/Medium Companies  
(n=191)

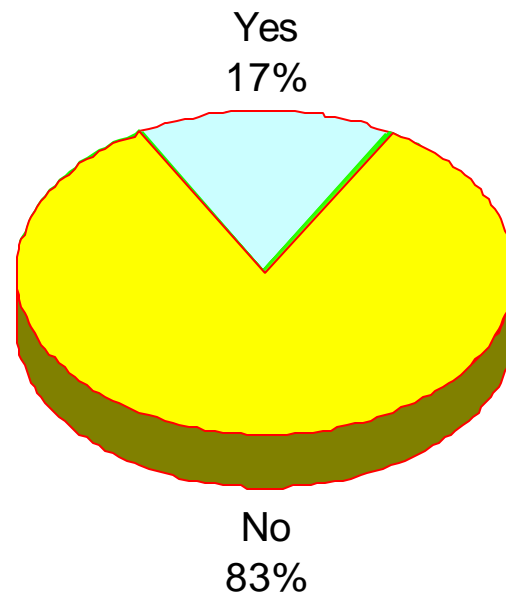


- Companies audited for transfer pricing are more likely to be:
  - ▶▶▶ Manufacturers (67%)
  - ▶▶▶ Public companies (62%)
  - ▶▶▶ Subsidiaries (68%)
  - ▶▶▶ Large companies with +\$1 billion in revenue (52%)
  - ▶▶▶ Aware of APA (53%)
  - ▶▶▶ Unfavourable impression of APA (69%)

# Incidence Of Having Suffered Double Taxation Because Of Transfer Pricing

Has your company suffered any double taxation as the result of an audit or examination of your transfer pricing by any tax authority?

Among Large/Medium Companies Who Have Had Transfer Pricing Audited  
(n=87)



- Cross-tab analysis does not reveal any differences among different kinds of companies being more or less likely to have suffered double taxation resulting from a transfer pricing audit.

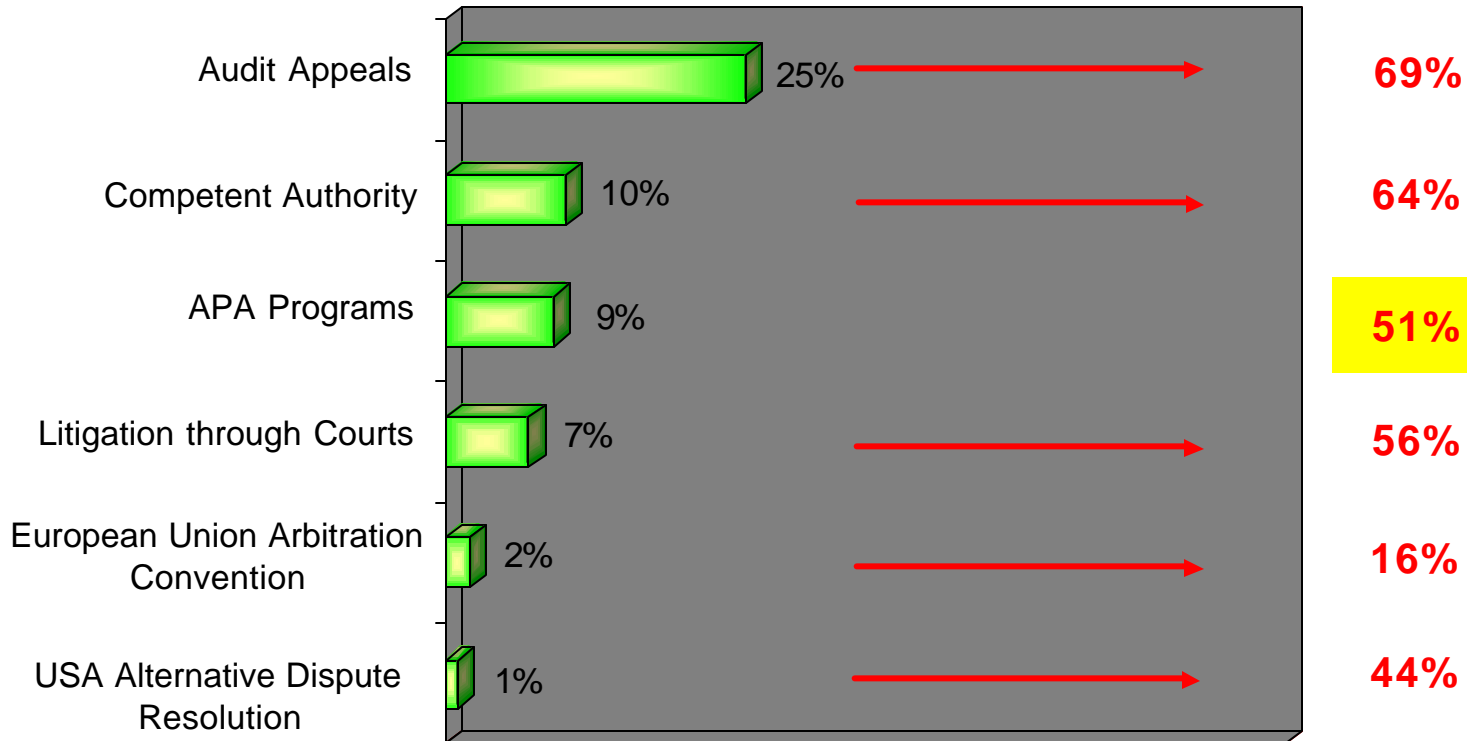
Q. Has your company suffered any double taxation as the result of an audit or examination of your transfer pricing by any tax authority?

# Past and Planned Usage Of Alternative Dispute Resolution Methods

% of Large/Medium Client Companies (n=191)

Have Used Method in the Past

Willing to Use / Consider in the Future



Currently, 65% of the respondents say they have never used or applied to use any of the above dispute resolution methods.

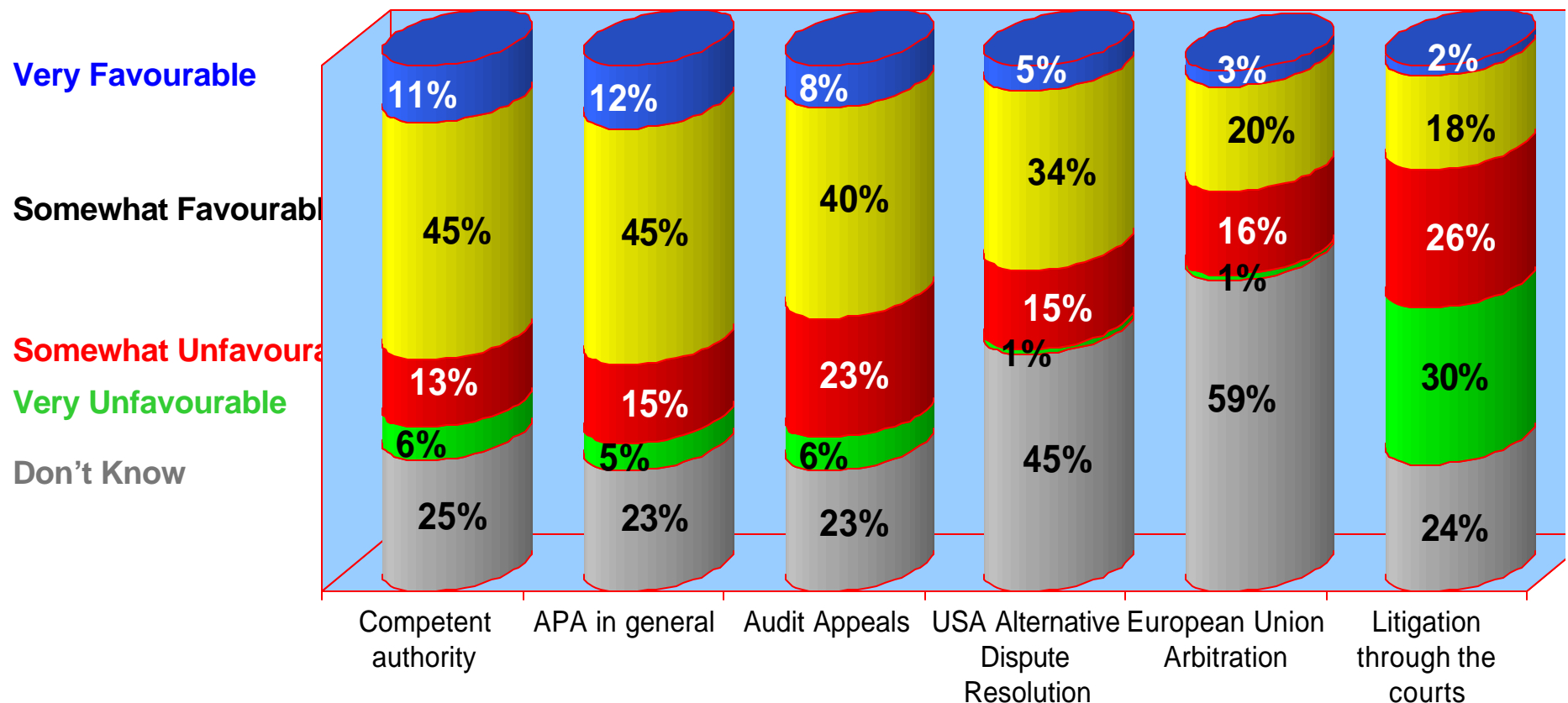
When asked which of these methods they would consider using in the future, 14% would not use any of the above mentioned methods.

Q. For each of the following dispute resolution methods, would you tell me (a) whether your company has used or applied to use, the method in the past and (b) whether your company would consider using the method in the future.

# Impression of Different Methods to Resolve Transfer Pricing Disputes - Client Perspective -

- Clients tend to have favourable impressions of competent authority (56%), APAs in general (57%), and audit appeals.
- Among the dispute resolution methods tested, clearly, litigation is the least favoured with 56% saying their impression is somewhat or very unfavourable. Only one in five (20%) have an unfavourable impression of APAs in general.
- A large portion of clients are unfamiliar, and unable to comment on USA Alternative Dispute Resolution and European Union Arbitration.

Among Large/Medium Client Companies (n=191)

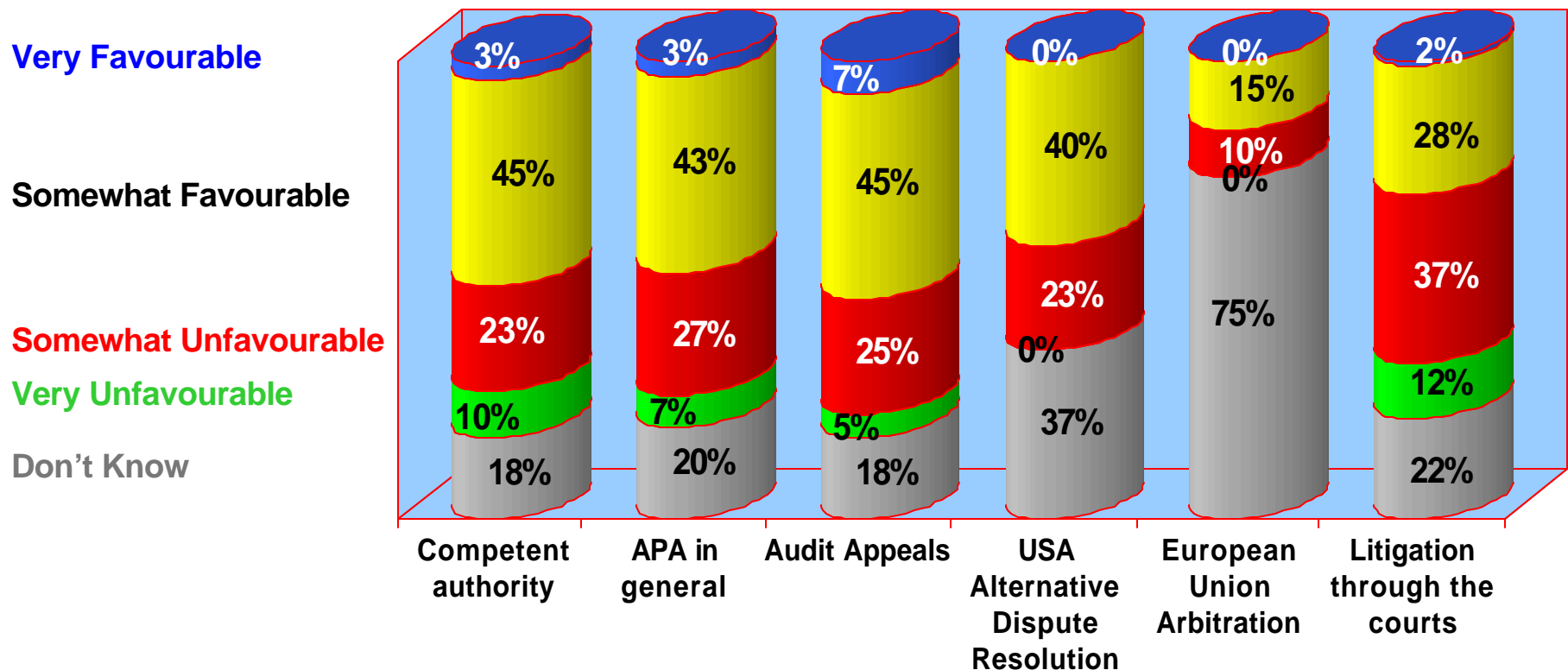


Q. There are different methods of dealing with disputes regarding international transfer pricing issues. What is your overall impression of each of the following methods of resolving disputes? Is it ... (Very Favourable, Somewhat Favourable, Somewhat Unfavourable, Very Unfavourable)

# Impression of Different Methods to Resolve Transfer Pricing Disputes - Advisor Perspective -

- Advisors, like clients, are much less familiar with European Union Arbitration and USA Alternative Dispute Resolution than other dispute resolution mechanisms.
- Approximately three in ten (34%) advisors have an unfavourable impression of APAs in general.
- Similar to clients, advisors are less enthusiastic about litigation giving it a higher unfavourable impression rating.

Among External Tax Professionals (n=60)

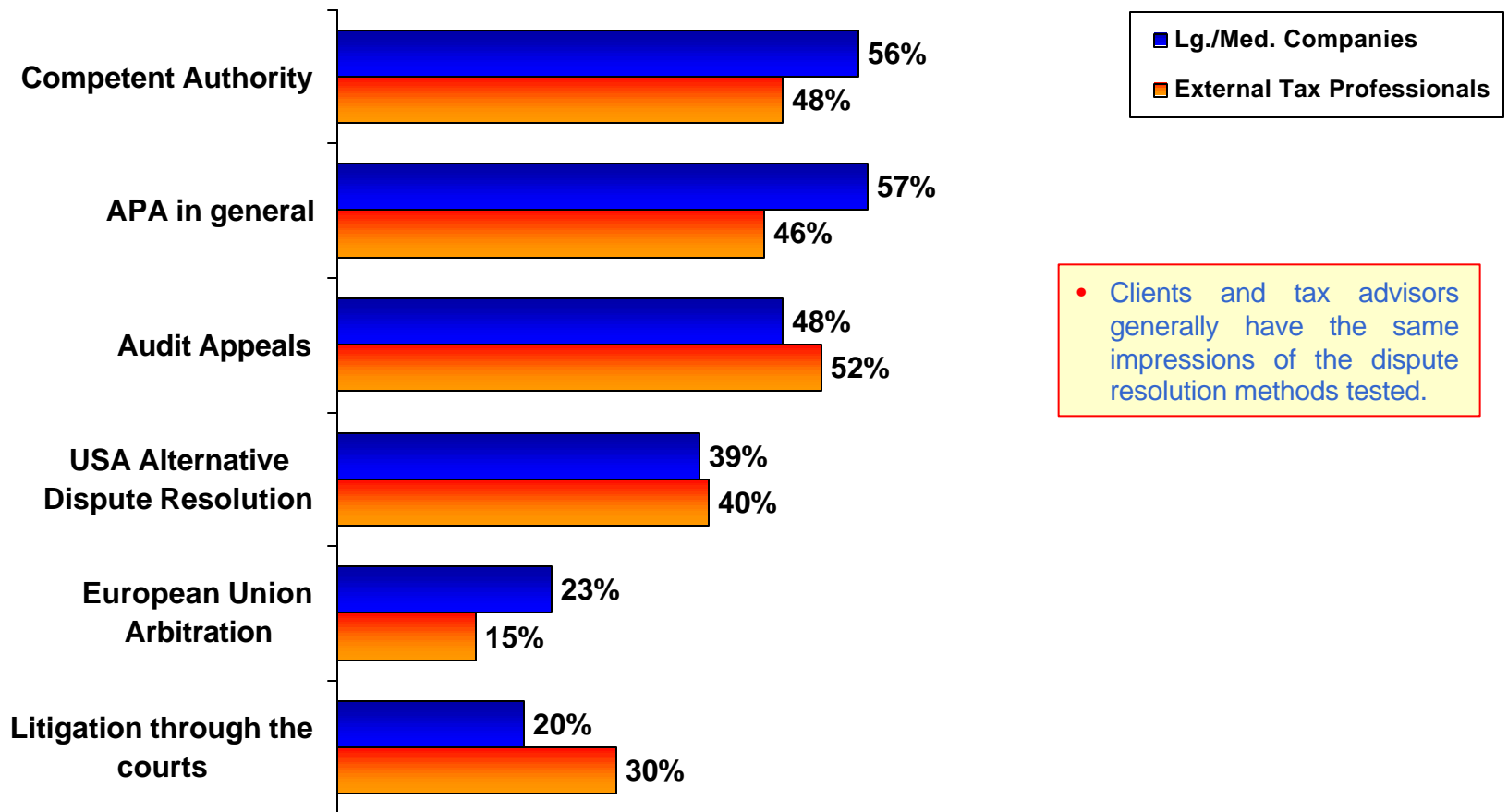


Q. There are different methods of dealing with disputes regarding international transfer pricing issues. What is your overall impression of each of the following methods of resolving disputes? Is it ... (Very Favourable, Somewhat Favourable, Somewhat Unfavourable, Very Unfavourable)

# Summary Chart

## Favourability of Clients vs. Advisors

### % Saying "Favourable" (Very and Somewhat)



Q. There are different methods of dealing with disputes regarding international transfer pricing issues. What is your overall impression of each of the following methods of resolving disputes? Is it ... (Very Favourable, Somewhat Favourable, Somewhat Unfavourable, Very Unfavourable)

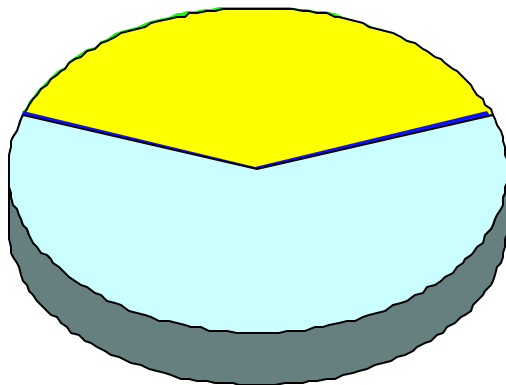


# *Awareness And Impression Of CCRA's APA Program*

# CCRA'S APA Program Has A Good Level Of Awareness With Both Clients And Advisors

Among Large/Medium Companies  
(n=191)

Unaware  
39%



Aware  
61%

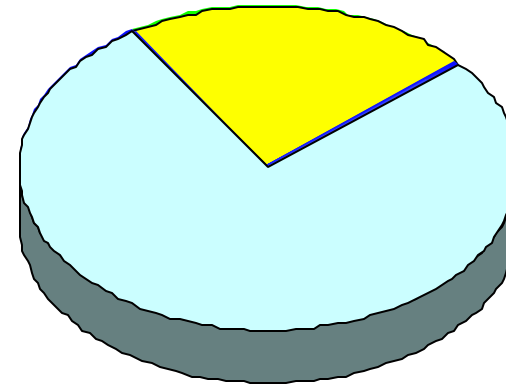


Those most likely to be aware:

- Clients whose transfer pricing has been subject to audit (72%)
- Larger companies (68%)
- Companies with +\$1B Revenue (67%)

Among External Tax Professionals  
(n=60)

Unaware  
23%



Aware  
77%



Those most likely to be aware:

- Advisors from larger tax firms (93%)
- Advisors who feel that international transfer pricing is a growing issue (82%)

Q. Are you aware of the APA program operated by the Canada Customs and Revenue Agency?

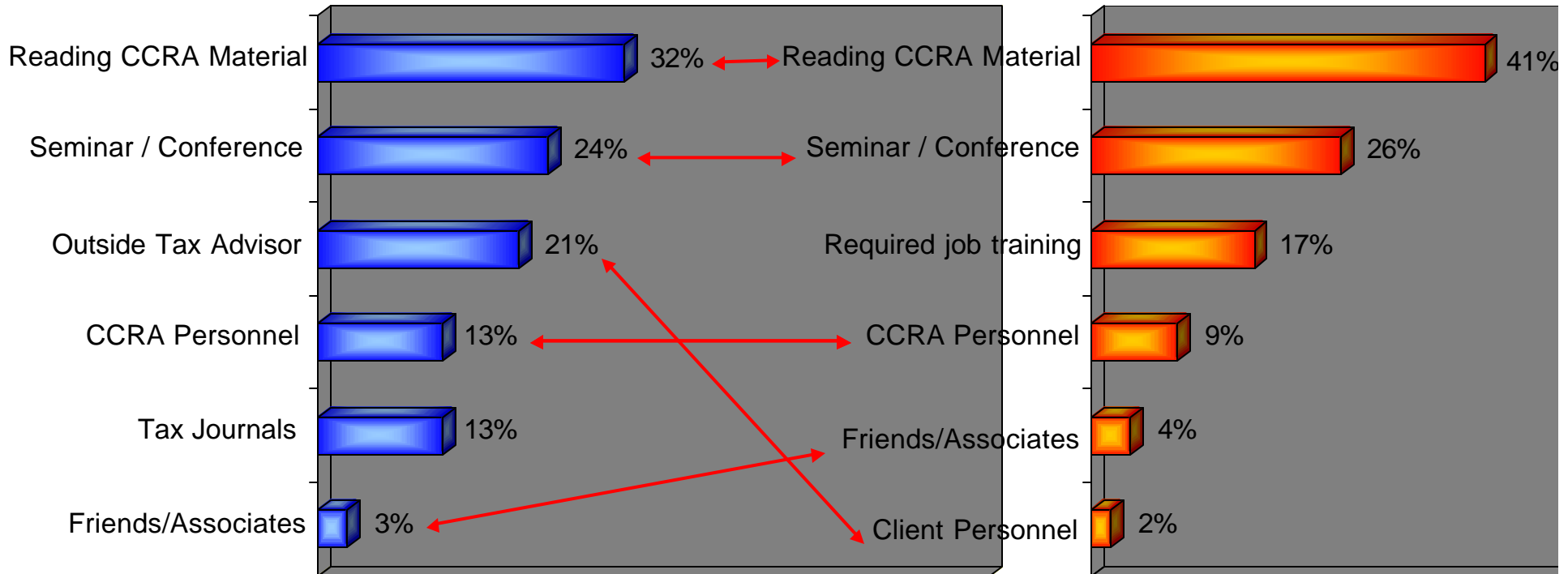


# Information Sources Creating An Awareness of CCRA's APA Program

- The arrows linking the two graphs below show that clients and advisors became aware of the APA program largely through similar means. CCRA materials and personnel play a significant role in creating awareness of the APA program.

Among Large/Medium Client Companies

Among External Tax Professionals

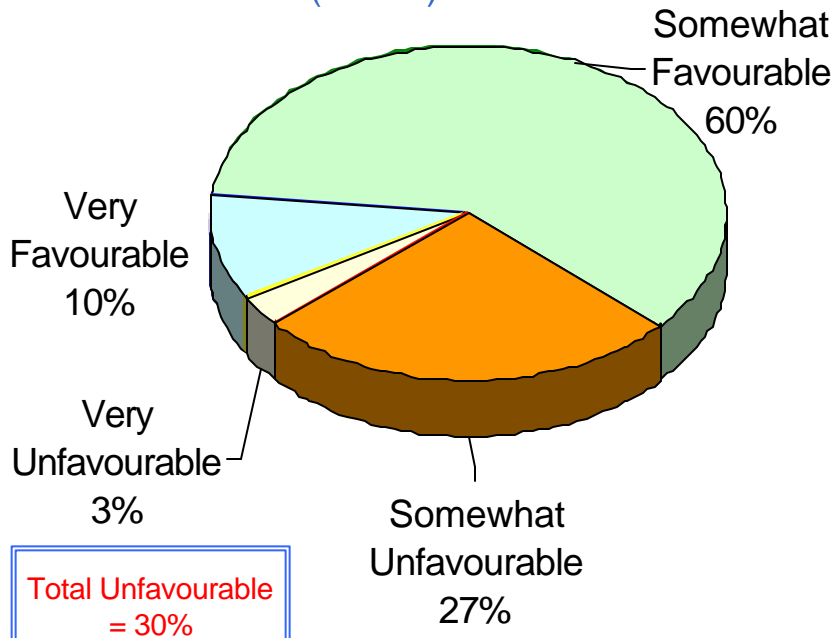


Q. How did you become aware of the APA program?

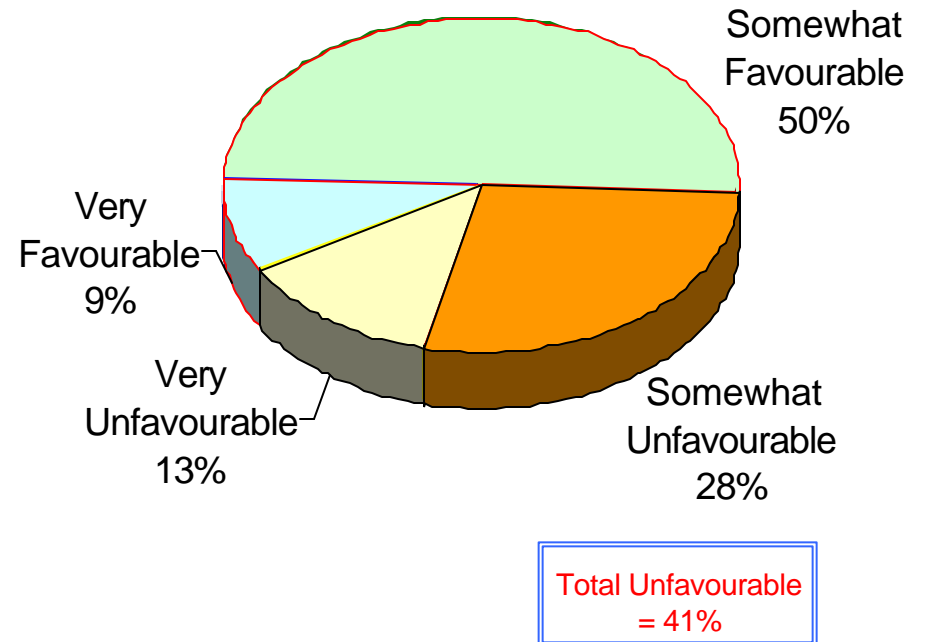
# Clients And Tax Advisors Have A Somewhat Favourable Impression Of The CCRA APA Program

## Overall Impression of CCRA's APA Program

Among Large/Medium Companies  
who are aware of the Program  
(n=117)



Among External Tax Professionals  
who are aware of the Program  
(n=46)



Those most likely to have a negative impression of the program:

- Those who have had their transfer pricing audited 38%
- Those who are unlikely to apply for an APA 37%
- Those who are unlikely to recommend it to others 73%
- Larger companies (+\$1Billion) 35%

There are no significant differences within the various data breaks.

Q. Based upon what you know or have heard, what is your overall impression of the APA program offered by CCRA? Do you have a very favourable, somewhat favourable, somewhat unfavourable, very unfavourable impression of the APA program?

# Unaided Rationale for Favourable / Unfavourable Impressions of the APA

## Reasons for Having a Favourable Impression

### Among Large/Medium Client Companies...

- ✓ Advanced ruling / predefined (13%)
- ✓ Sound like a fair / reasonable solution (13%)
- ✓ Feel more confident / certainty (12%)
- ✓ Good long term solution to settlements (7%)
- ✓ Have heard good things about the program / good reputation (7%)

### \*Among External Tax Advisors... (\*Small Base)

- ✓ Sounds like a fair / reasonable solution (48%)
- ✓ Have heard good things about the program / good reputation (22%)
- ✓ Faster / Quicker process (7%)
- ✓ Less rigid / more flexible (7%)
- ✓ Too new / lack experience to make it work smoothly (7%)

## Reasons for Having an Unfavourable Impression

### Among Large/Medium Client Companies...

- ✗ Time consuming / lengthy process (46%)
- ✗ Cumbersome/too much hassle/paperwork(13%)
- ✗ Price / too expensive (17%)
- ✗ Too complicated / difficult (14%)
- ✗ Risky divulging sensitive information (14%)

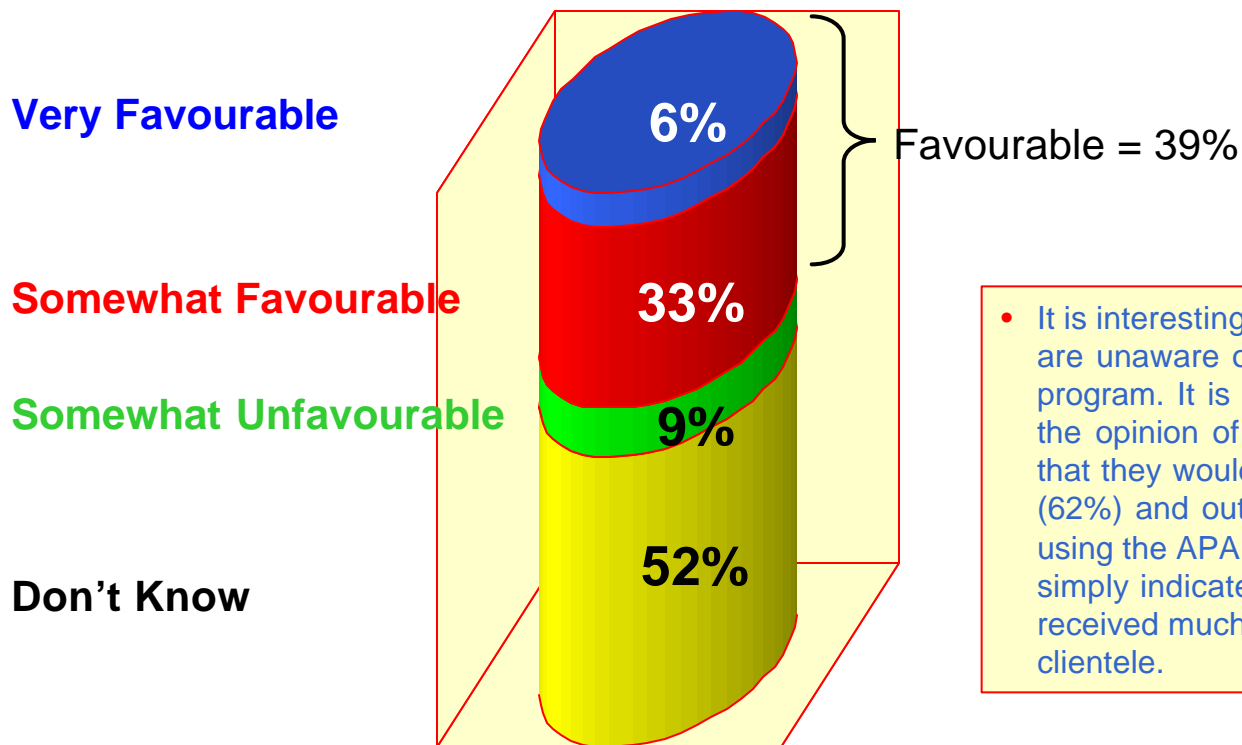
### \*Among External Tax Advisors... (\*Small Base)

- ✗ Time consuming / lengthy process (47%)
- ✗ Cumbersome / too much hassle / paperwork (32%)
- ✗ Too complicated / difficult (21%)
- ✗ Poor philosophy / mindset of CCRA officials (11%)
- ✗ Price / too expensive (11%)

# For the Most Part, Clients Are Unaware of How Their Advisors Feel About The APA Program

## Client's Perception of How Their Outside Tax Advisors Feel About the APA

Among Large/Medium Companies  
(n=191)



- It is interesting that such a large portion (52%) of clients are unaware of how their advisors feel about the APA program. It is simply not a case that they do not value the opinion of outside professionals. The majority say that they would rely most upon outside tax accountants (62%) and outside tax lawyers (25%) for advice about using the APA program. Consequently, this finding may simply indicate that the APA is not a topic that has yet received much “air time” between tax advisors and their clientele.

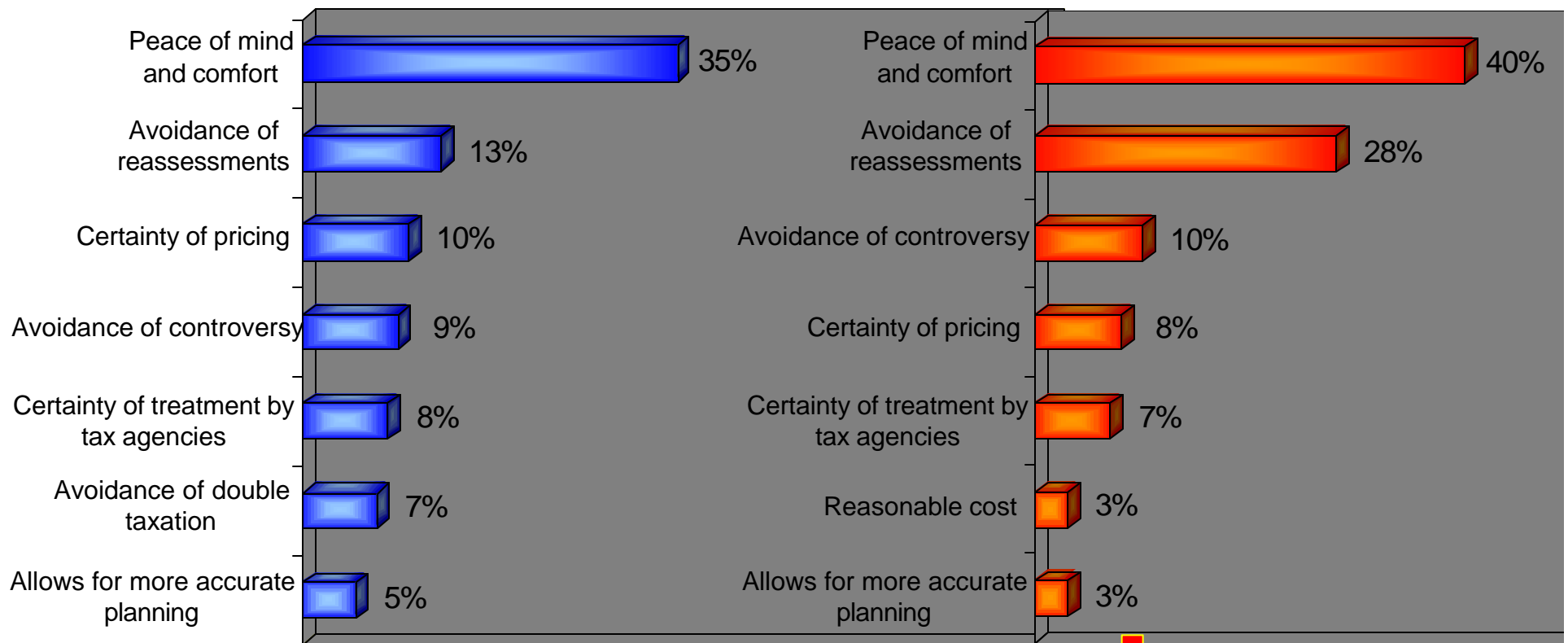
Q. (Asked only of Large/Medium Companies) Thinking about the outside tax advisors who provide your company with its main source of tax advice, what is their overall impression of the APA program offered by CCRA? Do they have a very favourable, somewhat favourable, somewhat unfavourable or very unfavourable impression of the program?

# Top-of-Mind Benefits Associated With An APA

## - Total Mentions, Unaided -

Among Large/Medium Client Companies (n=191)

Among External Tax Professionals (n=60)



Of note, 15% specifically say that there are no benefits of an APA for their company. An additional 12% are unable to respond to the question.

Significantly fewer (5%) advisors than clients (15%) feel that the APA has no benefits.

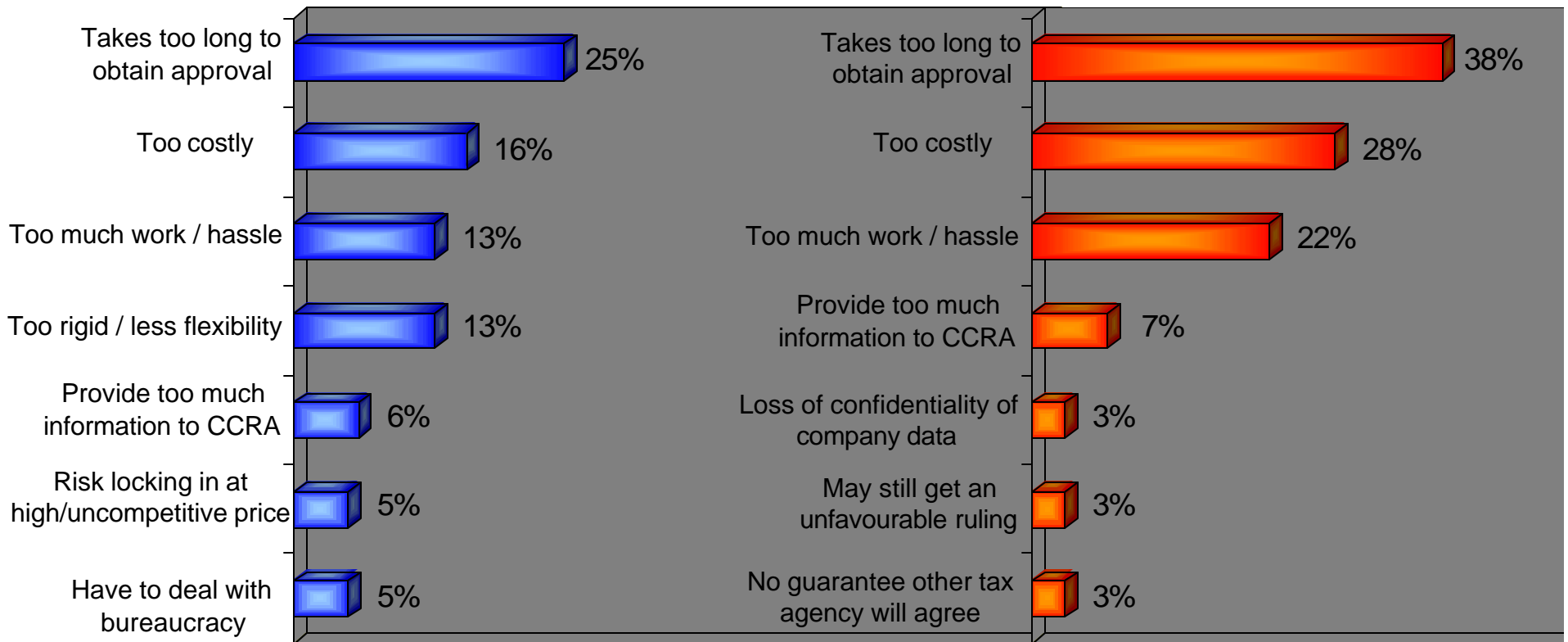
Q. In your opinion, what is, or what would be, the benefits of an Advance Pricing Arrangement (APA) for your company (your clients)?

# Top-of-Mind Drawbacks Associated With An APA

## - Total Mentions, Unaided -

Among Large/Medium Client Companies (n=191)

Among External Tax Professionals (n=60)



6% say they are not familiar with any disadvantages / drawbacks associated with the APA.

5% say they are not familiar with any disadvantages / drawbacks associated with the APA.

Q. In your opinion, what would be the drawbacks or disadvantages of an Advance Pricing Arrangement (APA) for your company (your clients)?

## Avoidance Of Double Taxation, Reassessments And Penalties, And Certainty Of Treatment Are The Most Important Benefits Associated With An APA

- There are few significant differences in attitudes between clients and advisors.

Importance of Benefit	% Saving Important (8, 9, 10 on Scale of 1-10)	
	Large / Medium Clients (n=191)	External Tax Professionals (n=60)
Avoidance of double taxation	71	70
Avoidance of Reassessments and Penalties	69	78
Certainty of Treatment By CCRA and Other Tax Authorities	67	80
Avoidance of Controversy and Legal Challenges	56	67
Peace of Mind and Comfort for Senior Executives	46	50
Reduced Audit Defense Costs In Future	42	43
Satisfies Requirements Under Section 247	37	48
Ability to Use APA to Clear Up Past Problems	30	35

Q. In your opinion, what is or what would be, the benefits of an Advance Pricing Arrangement for your company (your clients)?  
(Unaided)

# Overview Of Agreement Statements By Clients

## Among Large/Medium Client Companies (n=191)

	<b>% AGREE</b>	<b>% DISAGREE</b>	<b>NET SCORE</b>
One of Main Benefits is Certainty of Treatment	85	5	+80
APA Process Takes Much Too Long	59	9	+50
APA is Geared Primarily to Elimination of Double Taxation	68	24	+44
An Effective APA Program Would Assist Canada In Attracting Investment	60	31	+29
The APA Provides Complete Confidentiality of Company Information	49	23	+26
The APA is Only of Use For Very Large Companies	52	37	+15
I Would Generally Recommend The APA Program to Other Companies	44	29	+15
The APA is an Adversarial Approach For The Resolution of Pricing Issues	38	47	-9

Q. Based upon what you know or may have heard, please indicate the extent to which you agree with each of the following statements as it relates to the APA program offered by Canada Customs and Revenue Agency. Do you agree strongly, agree, disagree, or disagree strongly with the following statements?



# Overview Of Agreement Statements By Tax Advisors

Among External Tax Professionals (n=60)

	% AGREE	% DISAGREE	NET SCORE
One of Main Benefits is Certainty of Treatment	83	7	+76
APA Process Takes Much Too Long	80	3	+77
The APA is Only of Use For Very Large Companies	72	13	+59
APA is Geared Primarily to Elimination of Double Taxation	75	17	+58
The APA Provides Complete Confidentiality of Company Information	65	17	+48
I Would Generally Recommend The APA Program to Other Companies	57	28	+29
An Effective APA Program Would Assist Canada In Attracting Investment	57	32	+25
The APA is an Adversarial Approach For The Resolution of Pricing Issues	40	45	-5

Q. Based upon what you know or may have heard, please indicate the extent to which you agree with each of the following statements as it relates to the APA program offered by Canada Customs and Revenue Agency. Do you agree strongly, agree, disagree, or disagree strongly with the following statements?

# Comparison Of Attitudes Of Clients And Advisors To APA Program

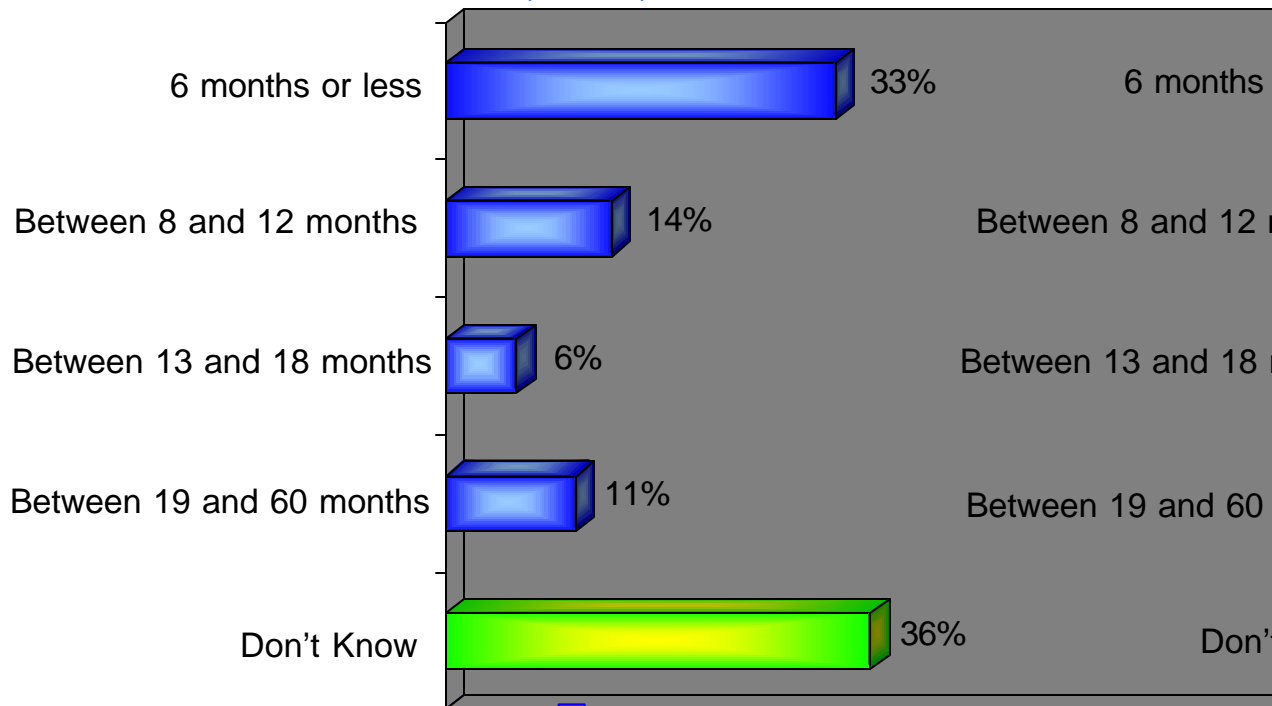
- Certainty of Treatment is seen as the strongest benefit of the APA program by both clients and tax advisors.
- There is very high agreement among both groups that the APA takes much too long to complete, and that it is geared primarily to the elimination of double taxation.

	Net Score Clients (n=191)	Net Score Advisors (n=60)
One of Main Benefits is Certainty of Treatment	+82	+76
APA Process Takes Much Too Long	+72	+77
APA is Geared Primarily to Elimination of Double Taxation	+66	+58
An Effective APA Program Would Assist Canada In Attracting Investment	+55	+25
The APA Provides Complete Confidentiality of Company Information	+45	+48
The APA is Only of Use For Very Large Companies	+39	+59
I Would Generally Recommend The APA Program to Other Companies	+24	+29
The APA is an Adversarial Approach For The Resolution of Pricing Issues	-14	-5

# On Average, Clients and Advisors Perceive That An APA Takes Between 12 and 15 Months To Complete

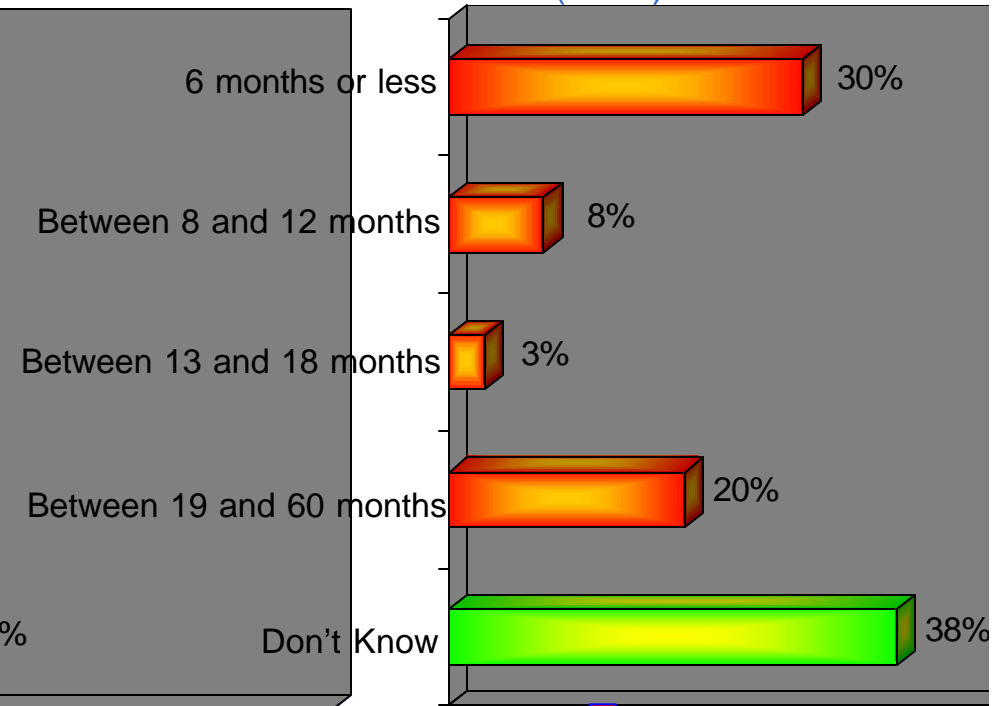
## Perception of Length of Time to Complete an APA (months)

Among Large/Medium Client Companies  
(n=191)



**Average = 11.5 months**

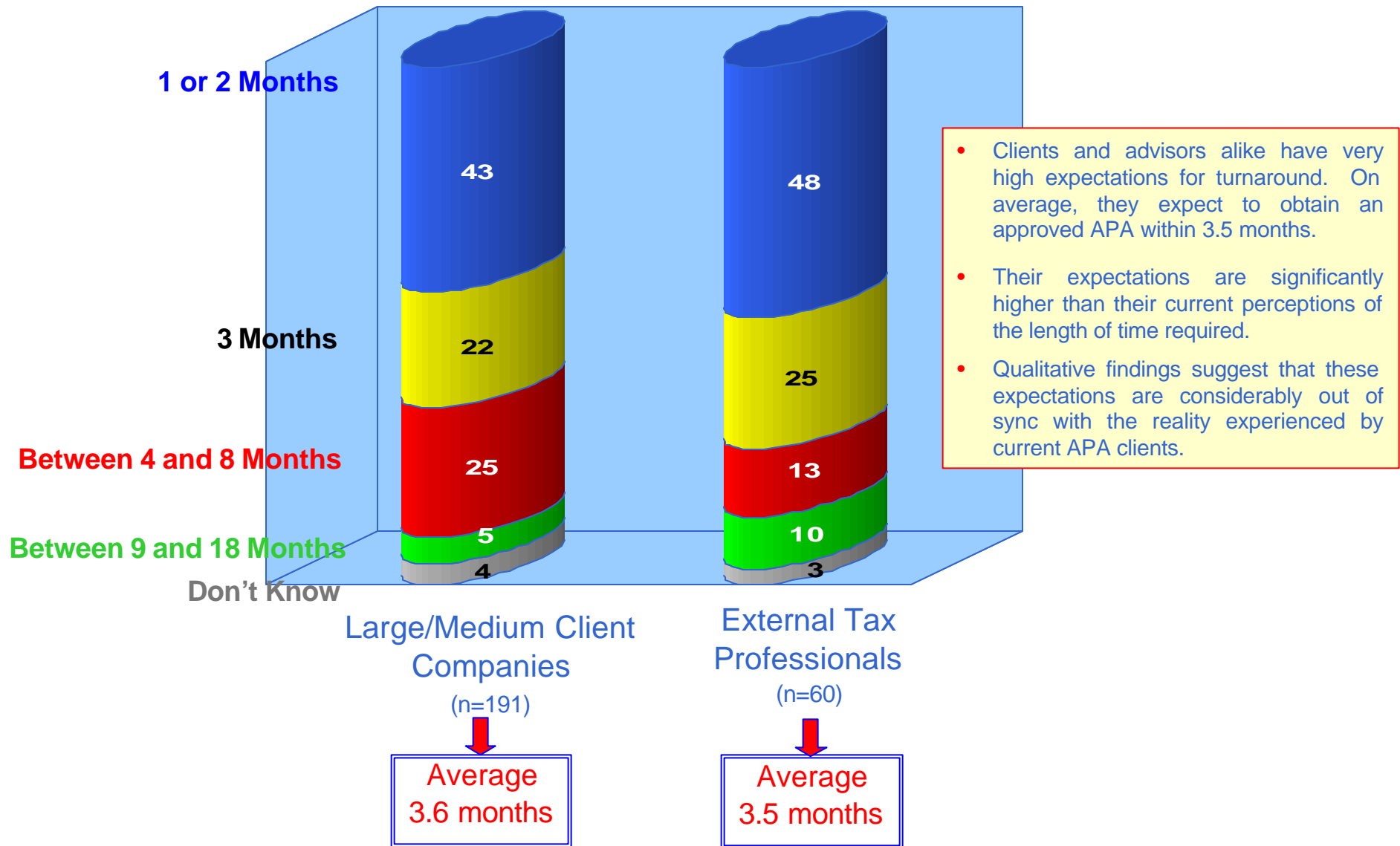
Among External Tax Professionals  
(n=60)



**Average = 14.8 months**

# Clients and Advisors Have Very Demanding Expectations For APA Turn-Around

Expectation of Length of Time to Obtain an APA (months)



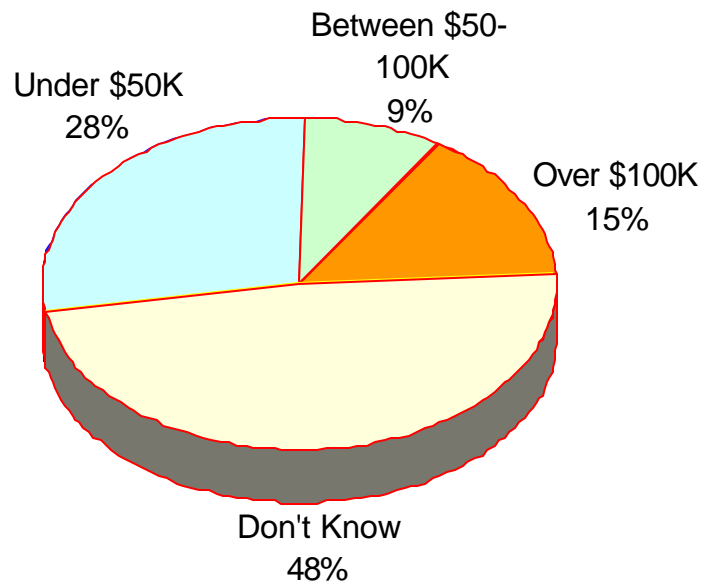
Q. How many months (years) would you expect it should take to obtain an approved APA?

# Most Have No Perception Of The Costs Associated With Obtaining An APA

- A large proportion of both clients and advisors have no perception of the internal and external costs associated with obtaining an APA.
- Of those who do have a perception, most tend to feel it costs under \$50,000. A small number of clients and advisors perceive the costs to be several million dollars. These individuals are responsible for pulling up the overall average.

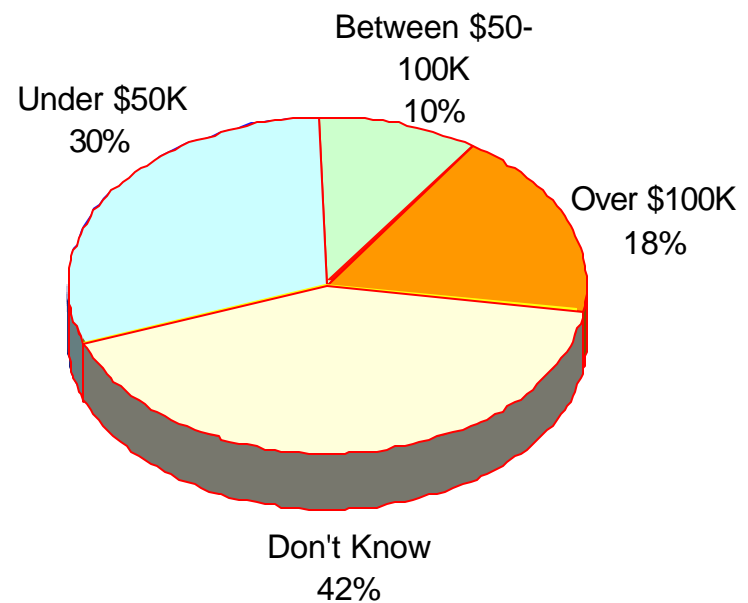
## Perception of Internal & External Costs to Complete an APA (\$)

Among Large/Medium Companies  
(n=191)



Average  
\$288.4K

Among External Tax Professionals  
(n=60)



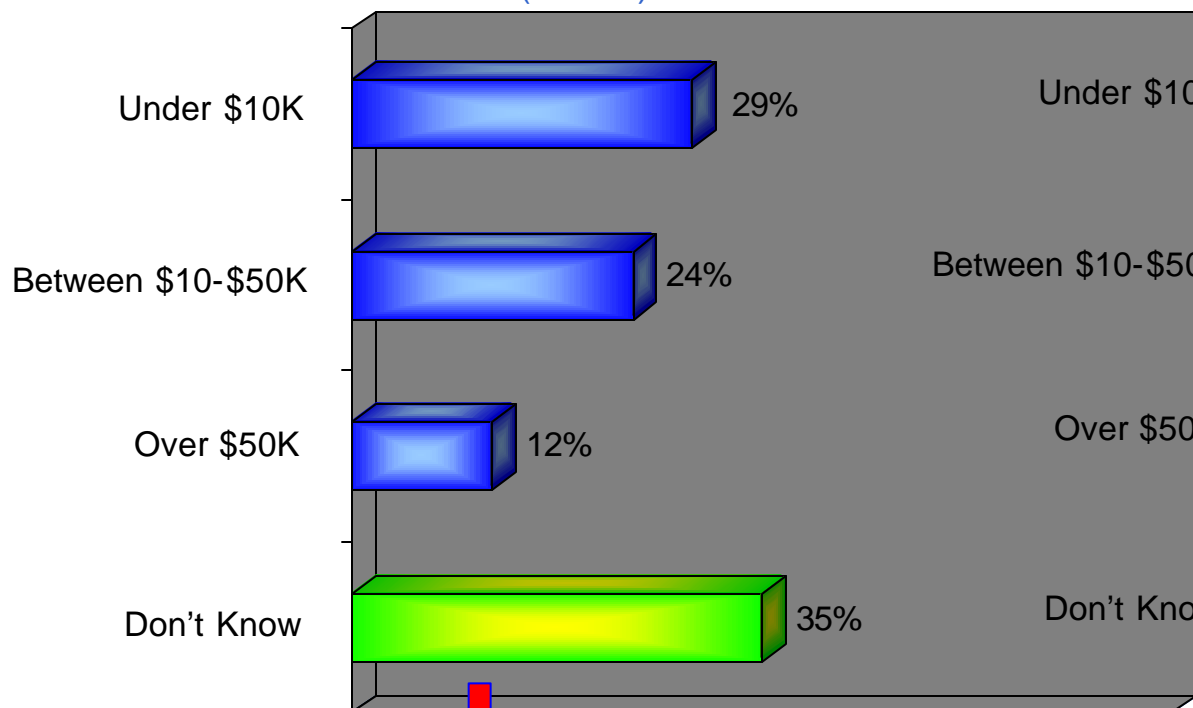
Average  
\$250.5K

# Current Cost Perceptions Are Considerably Higher Than Cost Expectations to Complete an APA

- For both clients and advisors, current costs perceptions are considerably higher than cost expectations to complete an APA.
- A hand full of advisors are pulling up the overall average for expected costs such that it is considerably higher than the costs expected by clients. This having been said, the largest proportion of advisors say costs should be below \$10K.

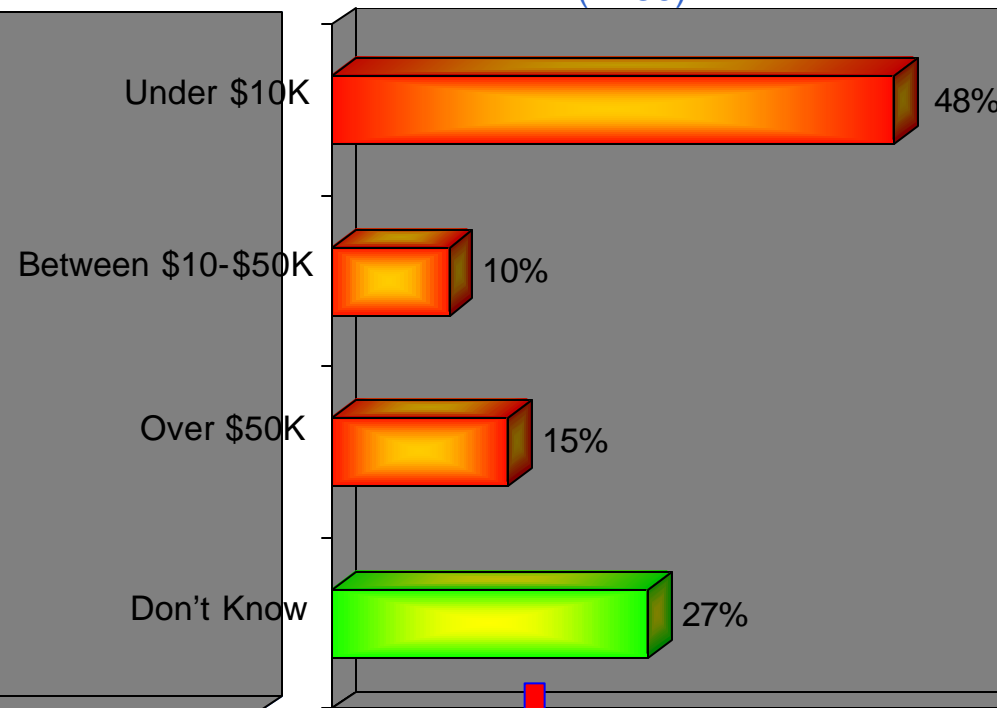
## Expectation of Internal & External Costs to Complete an APA (\$)

Among Large/Medium Client Companies  
(n=191)



Average  
\$65.8K

Among External Tax Professionals  
(n=60)



Average  
\$88.5K

Q. What would you expect that it should cost to obtain an approved APA?

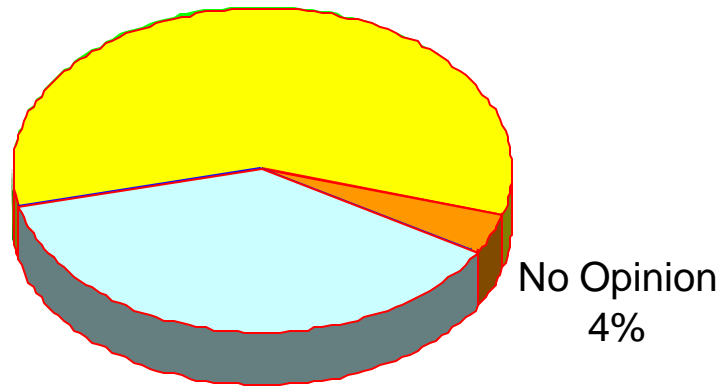
# Clients And Advisors Approve Of Practice Of Billing Client For Travel Expenses

- External tax professionals are significantly more likely to approve of the practice of CCRA billing back associated travel expenses at cost. This may be related to the fact that, as external consultants, they are more familiar with the concept of billing clients back for out-of-pocket costs associated with projects.

## Among Large/Medium Companies

(n=191)

Approve  
58%



Disapprove  
38%

No Opinion  
4%

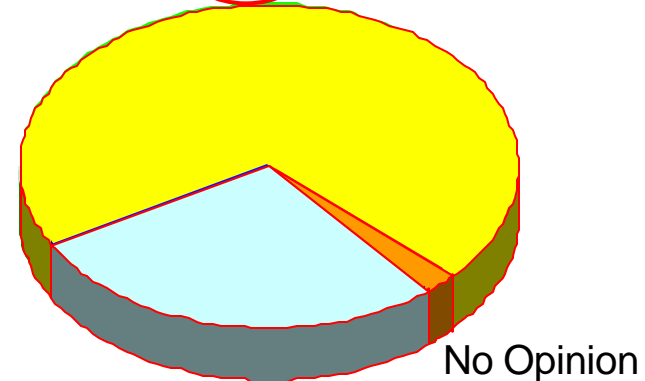
Those most likely to disapprove of charging back:

- Clients who feel that CCRA is the primary beneficiary of the APA program (63%)
- Companies with +\$1B Revenue (43%)
- Subsidiaries (55%)

## Among External Tax Professionals

(n=60)

Approve  
70%



Disapprove  
28%

No Opinion  
2%

Those most likely to disapprove of charging back:

- Advisors from smaller firms (43%)

Q. The current practice of the Agency while undertaking the travel necessary to pursue an APA is to follow the user pay principle and bill the applying company for those expenses. Do you approve or disapprove of this practice?

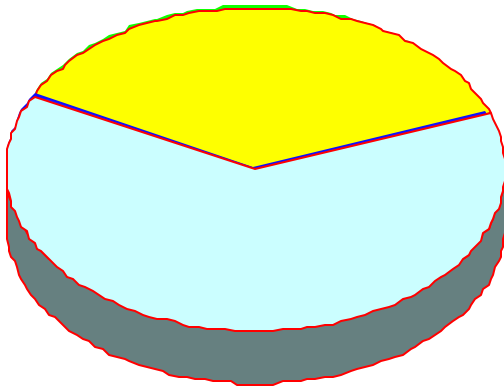
# Terms And Conditions Of APA Should Be Applied To Cover 3 Previous Years

- External tax professionals are significantly more likely than clients to feel that the terms and conditions of an APA should be applied to cover previous years. Both groups feel that 3 years is a reasonable period for which the conditions should be applied back to cover.

Among Large/Medium Companies

(n=191)

No  
37%



Yes  
63%

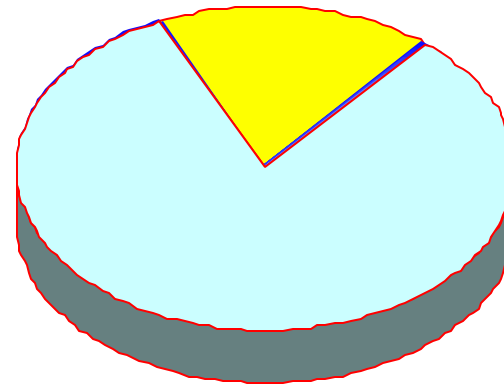


On average, clients feel that the terms and conditions of the APA should be extended back for a period of 3.5 years.

Among External Tax Professionals

(n=60)

No  
18%



Yes  
82%



On average, advisors feel that the terms and conditions of the APA should be extended back for a period of 3.3 years.

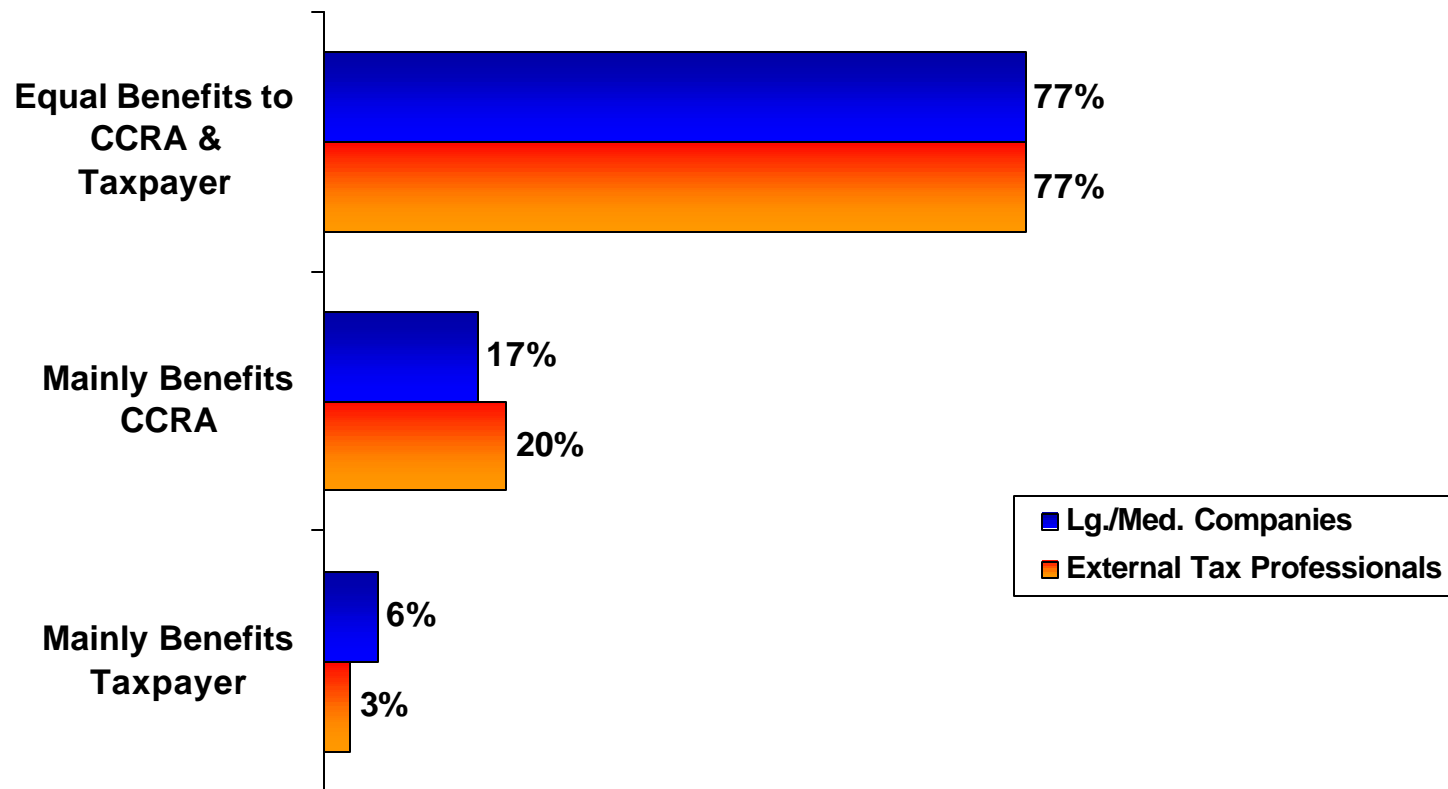
Q. Once an APA is approved would you like to see the terms and conditions of the APA applied to cover previous years?



# The APA Program Provides Equal Benefits To The Taxpayers And CCRA

- The vast majority of both groups feel that the APA equally benefits the taxpayer and CCRA. There is, however, approximately one in five who feel that a disproportionate share of the benefit goes to the tax authority. This suggests that a segment of potential applicants needs to be better informed about how their companies can benefit from the program.
- It is interesting to note that those respondents who have an unfavourable opinion of the APA program tend to be more likely to feel that CCRA gets the lion's share of the benefits.

## Statement Closest To How They Personally Feel



Q. Which of the following statements regarding the benefits of an APA program with CCRA is closest to how you personally feel?

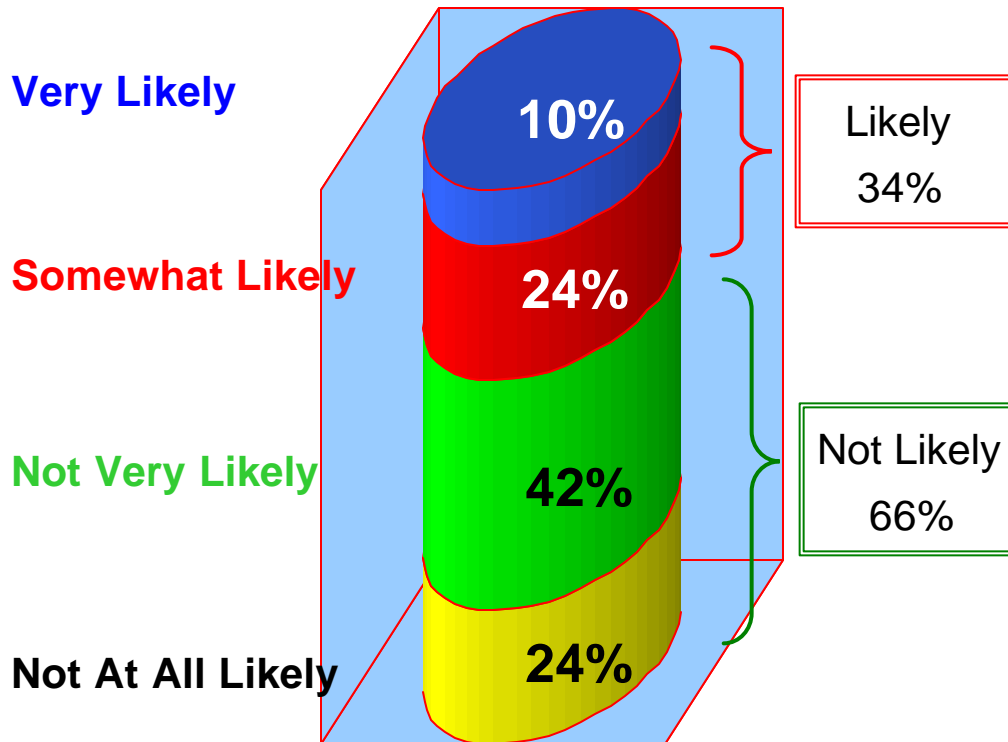


# *Potential Size Of APA Market*

# Likelihood of Medium and Large Companies Applying For An APA (Next Few Years)

Likelihood of Medium and Large Companies Applying for An APA  
(Next Few Years)

Among Large/Medium Companies  
(n=191)



## Those who say 'Likely' tend to be:

- Companies previously unaware of the APA program (46% compared to 26% among those aware of APA)
- Companies with a favourable impression of the APA (33% compared to 9% among those with an unfavourable impression)
- Companies with less than \$1B in revenue (46% compared to 29% among those with revenues exceeding \$1B)
- Companies who feel transfer pricing is growing in importance

Q. How likely would it be that your company might apply for an APA within the next few years? Is it ... (Very likely, Somewhat likely, Not very likely, Not at all likely)

# Stated Reasons For Being Likely / Unlikely To Use APA in the Future

## Among Large/Medium Client Companies

### Arguments for Being Likely to Use APA (n=64)

- ✓ Future security / certainty / insurance (20%)
- ✓ Heavily involved with international business (14%)
- ✓ Sounds like a good idea (11%)
- ✓ We are experiencing growth (11%)
- ✓ It would be beneficial (general mention) (9%)
- ✓ To avoid double taxation (3%)
- ✓ We have transfer pricing issues (3%)

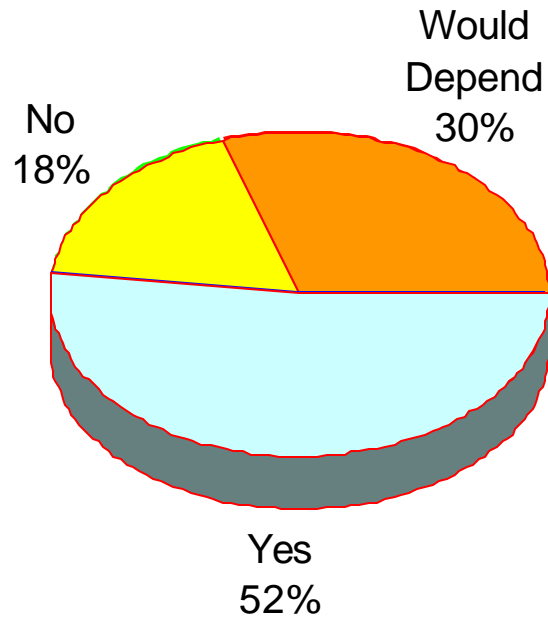
### Arguments for Being Unlikely to Use APA (n=127)

- ✗ Can handle issues internally (18%)
- ✗ Unnecessary for a small company like ours (11%)
- ✗ No benefits for our company (10%)
- ✗ Too expensive (9%)
- ✗ Don't know enough about the program (9%)
- ✗ Our transfer pricing issues are simple (8%)
- ✗ Comfortable with our current methodology (6%)
- ✗ Time consuming / inefficient (6%)
- ✗ Not a priority / Have other more pressing issues (6%)

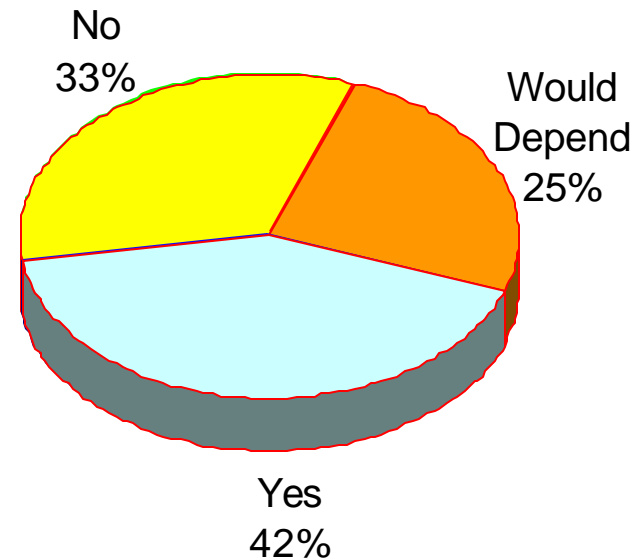
# Incidence of Advisors Recommending APA

Among External Tax Professionals  
(n=60)

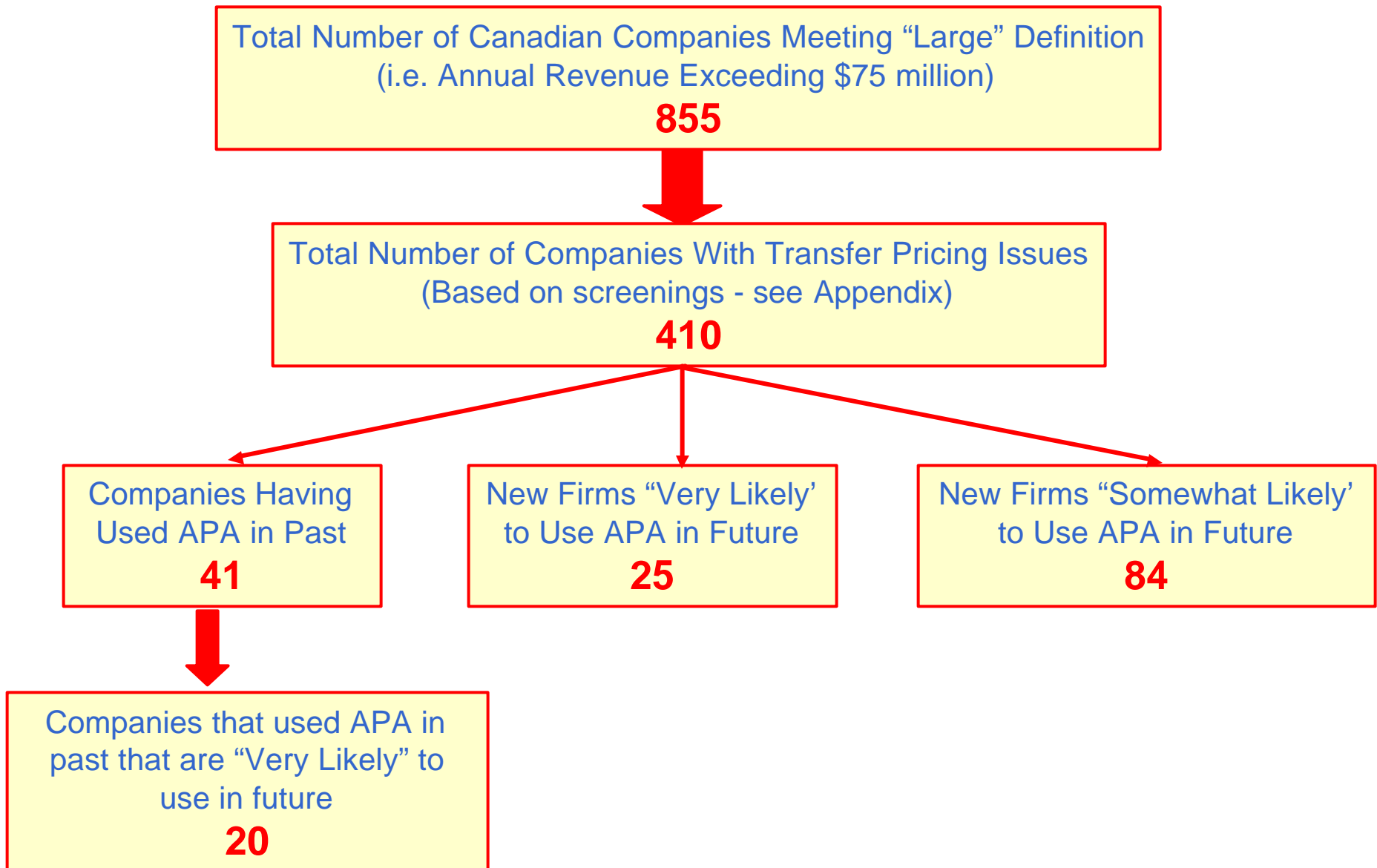
Would you recommend an APA to a **large company** with international transfer pricing issues?



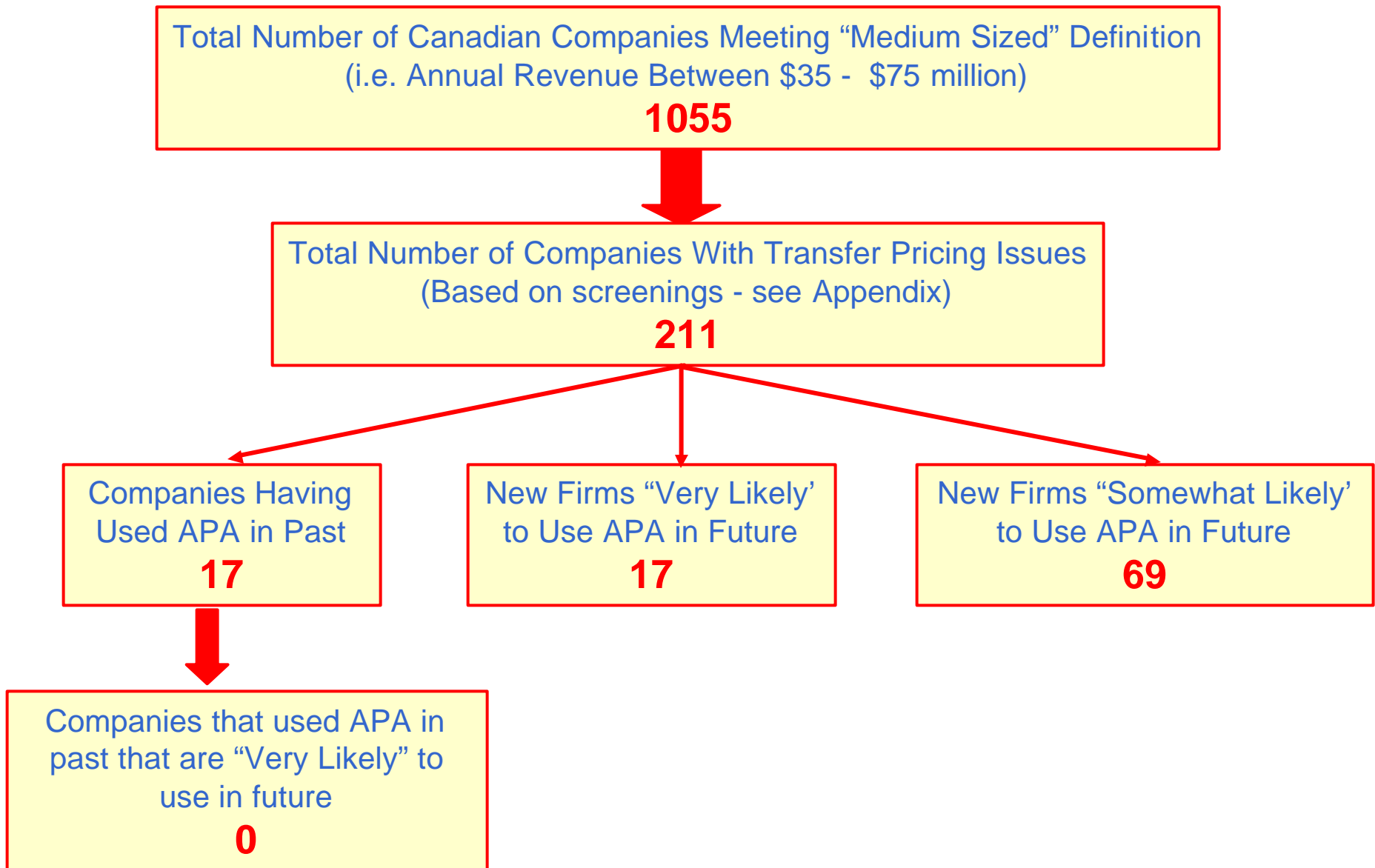
Would you recommend an APA to a **medium sized company** with international transfer pricing issues?



# Estimated Size of Market For APA In Next Few Years - Large Companies -



# Estimated Size of Market For APA In Next Few Years - Medium Companies -



# *Profile Of Respondents*



# “Firmographics”

## Among Large / Medium Companies

### Industry Sector

Manufacturing	→	24%
Resources	→	21%
Financial Services	→	15%
High Technology	→	14%
Utilities	→	4%
Communications	→	4%
Pharmaceuticals	→	2%
Refused	→	16%

---

### Public vs. Private Company

Public	→	82%
Private	→	18%

---

### Parent Company vs. Subsidiary

Subsidiary	→	20%
Parent	→	80%

---

### Revenue

Under \$1 Billion	→	31%
Over \$1 Billion	→	69%

## Among External Advisors

### No. of Advisors in Firm (Canada wide)

Under 5 advisors	→	50%
Over 5 advisors	→	50%
<i>Average</i>	→	<i>67.3</i>

---

# Groups / Individuals Clients Most Rely Upon for APA Advice

- The overwhelming majority of clients say they would seek APA advice from outside advisors. This speaks to the importance of CCRA keeping advisors on-side, and well versed about the APA so that they act as advocates rather than opponents.

Among Large/Medium Client Companies  
(n=191)

