

IRS Reports on Slower Year for Advance Pricing Agreements in 2022

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On 29 March 2023, the Internal Revenue Service (IRS) released Announcement 2023-10, which featured the 2022 Announcement and Report Concerning Advance Pricing Agreements ([APA Report](#)) providing that fewer APAs were executed with longer periods of time to completion than in 2021. The Report summarizes APAs by industry, transaction category, transfer pricing method selected, and profit-level indicator used for the APAs executed for the 2022 calendar year.

According to the report, only 77 APAs were executed in 2022, compared to 124 in 2021. The 2022 percentage of APA renewals executed was reduced to 55%, compared to 63% in 2021, and the median completion time for an APA in 2022 increased to 43.4 months, compared to 35.1 months in 2021.

However, the number of applications filed in 2022 increased to 183, compared to 145 filed in 2021. Additionally, the comparable profits and transactional net margin methods were selected in more than 75% of all covered transactions, with more than half of the APAs executed in 2022 involving transactions between non-US parents and US subsidiaries. Although most of the 2022 transactions covered in APAs executed in 2022 involved the sale of tangible goods or the provision of services, approximately 22% involved the use of intangible property.

IRS representatives attribute the decrease in the number of executed APAs to the fact that the APA Program was able to close its pre-pandemic cases and routine APAs during 2021, leaving more complex cases and newer APAs for 2022, which are more time consuming to complete. Further, the need for virtual meetings delayed the advancement of new 2022 advance pricing agreements. Despite these complexities, no APAs were revoked or cancelled in 2022 and only an average of 6 were withdrawn during the year.

Note: Under an APA, the government signs off on a company's transfer pricing arrangements over a set period, providing tax certainty between both sides on how the transactions are valued by the countries involved.