

Advance Agreements (APAs)

Pricing

October 21, 2019

Source: PIB & The Times of India

The Central Board of Direct Taxes (CBDT) has signed the 300th advance pricing agreement (APA) in September. This is a significant landmark of India's APA programme, which is currently in its seventh year. APAs became operational in India in 2012

What are APAs?

APAs are a **mechanism to resolve transfer pricing disputes, in advance**. Transactions between related parties (say an Indian subsidiary providing software development to its US parent company) are required to be an arm's length, which means no unfair pricing advantage is to be provided.

Advance Pricing Agreement (APA) Scheme

- The Government has introduced the Advance Pricing Agreement (APA) Scheme through Finance Act, 2012 and Income Tax (Tenth Amendment) Rules, 2012
- The APA Scheme endeavours to provide certainty to taxpayers in the field of transfer pricing through an agreement in advance.
- Such agreement is entered into by the CBDT with the approval of the Central Government, with the taxpayers on the transfer price of international transactions between associated entities.

Benefits of APAs

- It gives certainty to taxpayers
- It would help in reducing disputes and enhance revenues
- Make the country an attractive destination for foreign

investments

- May lower the complaints and litigation costs