

# New Transfer Pricing Developments in Hong Kong: an APA Program will be Launched

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## China Transfer Pricing Alert

The Hong Kong Inland Revenue Department (“IRD”) announced in a recent seminar that it would launch an Advance Pricing Arrangement (“APA”) program in April 2012, as well as start to accept APA applications.

IRD promulgated transfer pricing guidelines in 2009, i.e., Departmental Interpretation and Practice Notes (“DIPN”) No. 46. However, APA related issues were not covered by DIPN 46. As such, before officially launching the new APA program, Hong Kong IRD will release a new set of DIPN to explain the details of the APA program and provide a specific guidance on the procedures. A draft version of the new set of DIPN is expected to be issued in late January for consultation. We will release a tax alert to share our observations on this new DIPN later.

In order to deploy its resources strategically and efficiently, IRD will receive bilateral APA applications only at the initial stage. However, if a bilateral APA is not reached with the Comprehensive Double Taxation Agreement partner, IRD may turn to arrange a unilateral APA.

### Our Observation and Suggestion

As a “win-win” system for both tax authorities and taxpayers, APA provides taxpayers with higher legal certainty on taxation. From a tax authority’s perspective, APA ensures stable revenue in the future. Without a doubt, the launch of APA program marks a milestone progress on transfer pricing in Hong Kong.

In recent years, there has been an increasingly strengthened commercial and business relationship between Hong Kong and mainland China. With the increasing amount and diversified

types of related party transactions, the APA program to be launched will be certainly welcomed by entities in both Hong Kong and mainland China.

Based on our experience, it is often very efforts and time consuming to prepare documents for APA application. In light of this, entities that are interested in APA are encouraged to keep alert to the upcoming APA regulations and at the same time start to prepare documents in advance, so that they may be ready to submit application as soon as the APA program is officially launched.



## How Can Grant Thornton Help You?

Grant Thornton has a specialised China transfer pricing team that is fully committed to your business needs. Our team consists of seasoned Transfer Pricing advisors. We aim to deliver the most efficient and flexible TP solutions that help you deal with APA. To be specific, we can assist you in the following aspects during an APA application:

- before APA application - assist in formulating the appropriate APA strategy;
- pre-filing meeting stage – prepare the written request for the APA application and conduct pre-filing meeting on anonymous basis;
- formal application stage – prepare the formal application report;
- negotiation stage - attend in technical discussion and negotiation with tax authorities;
- execution and monitoring stage - prepare the annual compliance report on the execution of the APA.



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