

Navigating the Advance Pricing Agreement Process in KSA



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Zakat, Tax and Customs Authority (**ZATCA**) announced the Unilateral Advance Pricing Agreements (**APA**) process on **19 May 2024**. This initiative follows approved amendments to the Transfer Pricing Bylaws, which introduced provisions for Advance Pricing Agreements (**APA**) under Article 23 vide **Decision No. (8-2-23) dated 08/28/1444 AH**. It is anticipated that ZATCA's additional guidelines for APAs will be consistent with the OECD guidelines.

Advance Pricing Agreement:

An Advance Pricing Agreement (APA) is a binding arrangement between a taxpayer and a tax authority that sets a pre-approved transfer pricing method for related parties and international transactions. The purpose of the APA is to offer a clear framework for determining transfer pricing for controlled transactions between related entities, ensuring adherence to the arm's length principle.

Advantages for the Tax Payer:

Entering into an APA provides taxpayers with the following advantages:



Advantages for the Tax Authority:

The Tax Authority prevails the following benefits:

Optimal Resource Allocation

1

Decrease in Transfer Pricing Disputes

2

Enhanced relationships with taxpayers

3

Improved Transfer Pricing Efficiency

4

5

Alignment with International Standards & best practices

Types of APAs:

Unilateral Agreements: offer certainty in tax obligations within a single jurisdiction but may risk double taxation in cross-border transactions if other jurisdictions do not concur with the agreement.

Bilateral Agreements: between taxpayers and tax authorities of both the operating and related party's countries, are favored for eliminating double taxation but typically require more time to finalize compared to unilateral APAs.

Multilateral Agreements: involving more than two tax authorities and taxpayers from their respective tax jurisdictions.



ZATCA is currently accepting applications for unilateral APAs. As the guidance is published, it is expected to clarify ZATCA's position on bilateral and multilateral APAs. Additional information regarding application filing fees, the application format, and other specifics have yet to be announced by ZATCA.

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Applicability: The Process invites KSA's Taxpayers and Zakat Payers to submit unilateral APA applications for the financial period starting on or after **1 January 2024**.

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Eligibility: The transaction value with a related party must be at least **SAR 100** million. ZATCA may request the inclusion of certain tangled transactions in the APA, even if it doesn't exceed the threshold. The period for submission of an APA application is a minimum of **12 months before** the inception of the first Financial Year covered by the Agreement.

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Scope: An APA would span a defined period of **3 years** and may include a provision for rollback to cover previous years.



How Insights Can Help?

We assist clients in:

- 1 Assessment of the application process.
- 2 Preparation of required documentation.
- 3 Advising transactions falling in the purview of APAs.
- 4 Roll-back mechanism stipulated in the APA program Issued by ZATCA.
- 5 Arrangement of pre-filing consultation with ZATCA.
- 6 Timely submission of APA application.
- 7 Liaising with ZATCA during the whole process.
- 8 Reporting and monitoring the compliance.
- 9 Resolution of any disputes during the process.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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