KPMG

China Tax Alert

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Improved efficiency in APA signings, Bilateral APAs favoured by MNEs

Summary :

According to the <*China Advance Pricing Agreement Annual Report (2024)*> ("APA Annual Report"), the Chinese tax authorities signed 39 APAs in 2024, including 12 unilateral APAs and 27 bilateral APAs. Between 2005 and 2024, the Chinese tax authorities signed a total of 335 APAs, including 165 unilateral APAs and 170 bilateral APAs. For the first time, the cumulative number of bilateral APAs signed by China has exceeded that of unilateral APAs. This demonstrates that the Chinese tax authorities are continuously strengthening international tax cooperation, steadily advancing APA initiatives, and actively fostering a favourable tax business environment for taxpayers.

Background

On 25 November, 2025, the State Taxation Administration ("STA") released the APA Annual Report in both Chinese and English. This is the 16th APA Annual Report issued by the STA. The report systematically presents an overview of APAs, their development history, the latest mechanisms, operational standards, and implementation of APAs in China. It also provides a multidimensional data analysis on the APAs negotiated and signed between 2005 and 2024.

Overview of the Report

- **The number of APAs signed annually has continued to increase.** In 2024, the Chinese tax authorities signed 39 APAs, including 12 unilateral APAs and 27 bilateral APAs. Compared with the previous year (when 36 APAs were signed in 2023, including 9 unilateral APAs and 27 bilateral APAs), the overall upward trend persists.
- **Bilateral APA applications have risen significantly.** Of the 27 bilateral APAs signed in 2024, 22 were new agreements and 5 were renewals. In 2024, there were a total of 70 bilateral APAs at the intention stage, an increase of 10 compared to 2023. This indicates that, in an increasingly uncertain international tax environment, more cross-border taxpayers are seeking tax certainty through bilateral APAs.
- **High signing efficiency was maintained.** In terms of the time required to conclude an APA, all 12 unilateral APAs signed in 2024 were concluded within 24 months. Among 27 bilateral APAs, 13 were concluded within 24 months. According to the latest statistical data on MAP and APA released by the OECD in 2024, the APA closure rate in the Chinese Mainland was 24.2%, far higher than the global average of 18.1%, ranking seventh among the jurisdictions surveyed.
- **Actively expanding bilateral APA negotiation and signing countries and regions.** Of the 170 bilateral APAs signed by the Chinese tax authorities between 2005 and 2024, 118 were signed with other Asian countries and regions, accounting for approximately 70% of the total. A total of 33 agreements were signed with European countries, representing around 20% of the bilateral APA volume. There were 18 agreements signed with North American countries and one with an Oceanian country. Among the 27 bilateral APAs signed in 2024, 19 were signed with other Asian countries and regions, 6 with European countries, and 2 with North American countries. The Chinese tax authorities are actively expanding the number of countries and regions involved in APA negotiations and signings, striving to create a stable tax environment for multinational enterprises.

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- **While the focus remains on the manufacturing industry, the range of industries and types of related-party transactions are becoming increasingly diverse.** In 2024, the Chinese tax authorities' international tax services continued to focus primarily on the manufacturing industry. The manufacturing sector remains the main industry for APA signings, although there has been an increase in negotiations in other industries, such as wholesale and retail. In terms of the types of related transactions involved[1], there were 22 cases involving tangible assets, 12 cases concerning intangible assets, and 8 cases involving services.
- **The Transactional Net Margin Method (TNMM) remains predominant, while other testing methods are also leveraged.** As of 2024, among the signed APAs, the TNMM is the most frequently used method, having been used 328 times[2] and accounting for 83.9% of all transfer pricing methods adopted. Meanwhile, the Chinese tax authorities are actively seeking to evaluate the significant contributions of transaction parties to value creation, as well as special factors such as market premium and cost savings, through the use of other methods. Other transfer pricing methods have also been applied in signed APAs where appropriate: the cost-plus method ("CPM") has been used 21 times, the profit split method ("PSM") 14 times, and the comparable uncontrolled price ("CUP") method 12 times. Among the 39 APA cases successfully signed in 2024, the TNMM was used 29 times, the CUP method twice, and the resale price method ("RPM") once.

KPMG observations

In recent years, with the ongoing enhancement of international tax transparency, the tax collection and management of multinational enterprises in various countries has been strengthened, and APAs have become an important means for multinational enterprises to seek tax certainty. The overall trend of APA development in China exhibits the following characteristics:

- **An increasing number of multinational enterprises are applying for bilateral APAs.** Against the backdrop of strengthened international tax cooperation and enhanced international tax administration, APAs have become the most effective means for multinational enterprises to reduce transfer pricing investigations and avoid double taxation risk. Furthermore, to support the development of Chinese enterprises expanding internationally, the Chinese tax authorities give priority to bilateral APA applications for such enterprises, and it is expected that an increasing number of these "going global" enterprises will apply for APAs to obtain greater tax certainty in the future.
- **APA acceptance and review are becoming stricter.** According to the 2024 APA Annual Report, China's bilateral APA inventory[3] has reached 177 cases, an increase of 28 compared to 2023. The number of APA applications is expected to continue rising, and tax authorities are applying stricter standards in the acceptance and review of APA applications. The APA Annual Report specifies that APA applications featuring innovative methods or high-quality quantitative analysis of intangible assets, cost savings, or market premium will be given priority by the tax authorities. Enterprises wishing to expedite the application and negotiation process should ensure the completeness and accuracy of the submitted documents, pay close attention to value chain and market premium analysis, and actively communicate with the tax authorities to facilitate the progress of their APA.
- **Reasonable use of international tax cooperation mechanisms to safeguard legitimate rights.** According to APA statistics and OECD data, international tax cooperation has been strengthened in recent years, with tax authorities in different jurisdictions actively working to improve the efficiency of dispute prevention and resolution. The Chinese tax authorities have performed outstandingly, handling 23 transfer pricing MAP cases and signing 39 APAs in 2024. The closure and dispute prevention rates of Chinese tax authorities in relation to APAs are among the top ten globally. Chinese "bringing in" and "going global" enterprises should enhance their awareness of international tax risk prevention and tax cooperation mechanisms to address cross-border tax risks, effectively avoid or eliminate international double taxation, and safeguard their legitimate tax rights in the current global political and economic environment.

Note 1: As some advanced pricing agreements (APAs) involve two or more related-party transactions, the applicable types of related-party transactions may also include multiple categories.

Note 2: As some APAs involve two or more related-party transactions, the applicable transfer pricing methods may also include more than one method.

Note 3: APA cases at the intention and application stages.

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