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Key Insights from the IRS 2025 APA Report

Introduction

On March 30, 2026, the Internal Revenue Service ("**IRS**") released its annual Announcement and Report Concerning Advance Pricing Agreements (the "**Report**"), outlining the activity of the Advance Pricing and Mutual Agreement Program ("**APMA Program**") for calendar year 2025.

The Report confirms that Advance Pricing Agreements ("**APAs**") continue to be an important tool for multinational groups seeking certainty in their transfer pricing positions and reduced audit risk. It also provides valuable insight into current IRS practices and evolving taxpayer behavior in managing cross-border transactions.

Below, we outline the key findings of the Report and highlight practical considerations for taxpayers engaged in intercompany transactions.

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The information in it is therefore general and should not be considered or relied on as tax advice.



APMA Program Activity and Trends

In 2025, the IRS received 178 APA applications, including 153 bilateral APAs, indicating that taxpayers are seeking to align the transfer pricing of covered transactions with tax authorities in both jurisdictions. The total number of APA applications filed in 2025 confirms the upward trend from the 169 and 167 applications filed in 2024 and 2023, respectively.

Italy remains a relevant jurisdiction in this context, accounting for 8% of bilateral APA filings in 2025, thereby ranking as the third jurisdiction in the statistics, following India and Japan.

A total of 110 APAs were executed in 2025, including 90 bilateral APAs. The average completion time for executed bilateral APAs was 44.7 months, reflecting the IRS thorough review process and the importance of early and proactive planning of APA application.

Common APA Transactions

The 2025 data indicates that APAs are most frequently utilized in the wholesale and retail trade sector (29%), followed by services (25%) and manufacturing (20%). Within wholesale and retail, a significant share of activity relates to merchant wholesalers of durable goods (44%) and nondurable goods (19%).

The predominantly covered transactions include intercompany services provided by both U.S. and non-U.S. entities, which together account for 53% of covered transactions, as well as the sale of tangible goods into the U.S. (20%). 41% of the tested parties were non-U.S. service providers, 23% were U.S. distributors, and 15% were U.S. service providers.

Transfer Pricing Methods and APA Terms

The IRS approach remains consistent with prior years. The Comparable Profits Method / Transactional Net Margin Method ("CPM/TNMM") continues to be the predominant transfer pricing methodology, applied in 86% of cases involving tangible and intangible transactions and in 83% of services transactions.

Operating margin remains the most commonly used profit level indicator ("PLI"), applied in approximately 57% of CPM/TNMM cases for covered transactions involving tangible and intangible property. Alternative profit level indicators, primarily the Berry Ratio and return on sales, were used in roughly 20% of cases. This confirms the continued reliance on benchmark-based approaches for routine functions.

Requests for an APA term typically cover five prospective taxable years. In 2025, term length of five years was observed in 41 executed APAs. Many agreements include "rollback" provisions allowing application of the agreed methodology to prior years. Such provisions were included in approximately 23% of APAs concluded in 2025, resulting in an average term length of six years for executed APAs.

APA as a Tool for Managing Transfer Pricing Risk

Unilateral and bilateral Advance Pricing Agreements with the tax authorities can provide valid alternative dispute resolution forums and the opportunity to resolve transfer pricing issues for past as well as future years in a cooperative context. Funaro & Co. has successfully assisted numerous clients in connection with transfer pricing examinations and the negotiation of Advance Pricing Agreements.

This content is for general information purposes only, and does not constitute tax advice. If you have any questions or would like additional information on the topics covered in this alert, please contact your engagement partner.

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With more than 160 employees and offices in New York, Miami, Frankfurt, Milan, Rome and Bari, the size of our firm is small enough to provide an unusual degree of personal service, yet large enough to provide the specialized level of professional support required by our clientele.

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