TAPP No.12

Institutional Design for Preventing and Resolving Tax-Related Disputes

This product primarily introduces the institutional design for preventing and resolving tax-related disputes from both domestic and cross-border perspectives. Among them, the domestic institutional design for preventing and resolving tax-related disputes includes advance tax rulings, tax administrative reconsideration, and administrative litigation, while the cross-border institutional design refers to the Mutual Agreement Procedure (MAP).

I. Advance Tax Ruling: An Effective Means to Prevent Disputes

A. Concept

Internationally, advance tax rulings are mainly divided into judicial models and administrative models. The former is led by judicial authorities, while the latter is led by tax administrative authorities. The administrative model is relatively simpler and more feasible; therefore, most countries currently adopt the administrative model for advance tax rulings. The following content exclusively covers the administrative model.

An advance tax ruling refers to a process in which a taxpayer submits a written application to the tax authority to determine the application of tax laws to specific future tax-related matters, and the tax authority provides a written response informing the taxpayer of its opinion on the relevant application. The main characteristics of an advance tax ruling are: first, ex-ante nature, meaning it targets transactions or activities that are foreseeable in the future or have occurred but have not yet been subject to tax filing—this is the most basic feature of an advance ruling; second, specificity, meaning it targets specific transactions or activities of a specific taxpayer—very concrete tax matters rather than summarized general issues; third, applicability, meaning it determines the application of existing tax laws rather than creating new ones; fourth, service-oriented nature, as an advance ruling is a personalized service, and taxpayers can voluntarily choose whether to apply for this service.

The advance tax ruling is an important manifestation of tax transparency, providing certainty for taxpayers' anticipated transactions. First, it reduces ex-post risks, disputes, and litigation; second, it avoids the lag in ex-post management by tax authorities, saving collection and administration resources; third, it enhances mutual trust between tax authorities and taxpayers, fostering a favorable tax business environment.

B. Procedures and Elements of Advance Tax Rulings

The international advance tax ruling system has been in operation for many years, and relevant countries have accumulated rich experience through tax legislation, institutional design, and case practice. Sweden has been providing advance ruling services since 1911, boasting a history of over 110 years. The United States has a history of over 70 years since issuing its advance ruling guidelines in 1954. The Dutch advance ruling system originated after World War II. Currently, more than 100 countries and regions worldwide have implemented advance tax ruling systems. Advance tax rulings include the following procedures and elements:

1. Application. Regarding applicants, the applicant must have foreseeable interests at stake, primarily the taxpayer. In addition, in practice, others may also apply, including agents, withholding agents, partners, bankruptcy executors, surviving enterprises, etc. Regarding the subject matter of applications, a combination of positive and negative lists is mainly adopted—specifying under what conditions taxpayers can apply for an advance ruling, while excluding certain situations where rulings will not be issued through negative listing, thereby defining the scope of applicable matters. Positive lists can specify rulings on particular taxes (e.g., income tax) or specific matters (e.g., transfer pricing). Negative lists exclude circumstances clearly unsuitable for rulings, such as matters not seriously considered or lacking a reasonable commercial purpose, or matters already assessed, inspected, or processed by tax authorities.

2. Acceptance and Processing. Regarding executing agencies, based on the internal hierarchical levels of acceptance and execution within tax authorities, there are two forms: centralized and decentralized. Under the centralized form, the highest or higher-level tax authorities are responsible; under the decentralized form, lower-level tax authorities distributed across various regions are responsible. The centralized form helps ensure the authority and uniformity of rulings but may affect efficiency. The decentralized form is relatively more flexible and efficient but may result in regional differences in tax law application. Regarding processing time limits, according to a 2015 OECD survey of 56 countries, more than two-thirds had stipulated time limits for issuing rulings and clarified that these could be appropriately extended under specific circumstances. Overall, there are significant differences among countries, ranging from 28 days to 1 year. A few countries offer expedited processing procedures, generally limited to specific types of tax matters, requiring applicants to provide sufficient reasons for the expedited request and pay additional fees.

3. Feedback. For ruled matters, a written opinion is issued, usually in the form of a ruling opinion letter. Regarding binding force, in most countries, an advance ruling is regarded as a unilateral tax administrative act. Correspondingly, the binding force of an advance tax ruling is asymmetrical: it binds the tax authority but not the taxpayer. If a taxpayer arranges related transactions according to the ruling opinion, the tax authority cannot adopt a position different from the advance ruling during assessment or inspection. Taxpayers can choose whether to file tax returns according to the ruling opinion, but choosing not to may face the risk of inspection or penalties. At the same time, because it is not binding on the taxpayer, correspondingly, the taxpayer cannot apply for reconsideration or litigation based on the ruling conclusion.

4. Fee Collection and Information Publication. Regarding fee collection, some countries charge fees while others provide the service for free. Where fees are charged, the rates are generally calculated based on the time spent. Regarding information disclosure, on the premise of balancing the interests of specific taxpayers in advance rulings (mainly the right to privacy and confidentiality), most countries publish their issued advance rulings in some form. There are roughly two forms of publication: one is publishing the original ruling text after deleting the taxpayer's private information; the other is publishing a summary of completed rulings (after filtering out private information).

C. Typical Cases

1. South Africa's Advance Tax Ruling System

South Africa introduced the advance tax ruling system in 2007, with corresponding provisions in its tax administration law. Advance rulings include two types: private and collective. A private advance ruling is applied for by a specific taxpayer regarding a particular matter; whereas a collective advance ruling is applied for by a specific class of taxpayers regarding a specific transaction, requiring only a representative of that class to apply without needing every relevant taxpayer to do so. Main features: first, the entire application process for advance rulings has been digitized, allowing applicants to apply and pay online via the South African Revenue Service official website; second, the scope of application is broad, covering residents, non-residents, individuals, and collectives, with taxes including all except customs duties and excise taxes; third, collective advance rulings are quite unique. By providing rulings for the same class of taxpayers, they greatly improve ruling efficiency and optimize resource utilization.

2. Pakistan's Advance Tax Ruling System

Pakistan introduced the advance tax ruling system in 2017, as reflected in its Income Tax Ordinance. Pakistan's advance tax rulings are limited to applications by non-resident enterprises regarding income tax matters, mainly involving transactions conducted solely by non-resident enterprises in the country or jointly with resident enterprises. The executing body is a committee led by the Chairman of the Federal Board of Revenue. Rulings are free of charge and binding only on the tax authority, but if fraud or misrepresentation by the enterprise is discovered, they become non-binding.

D. Future Outlook

With the deepening advancement of global digital transformation, the continuous enrichment of emerging complex tax scenarios, and the ongoing upgrading of tax cooperative compliance concepts, future advance tax rulings are expected to develop in the directions of online processes, AI-assisted processing, and field expansion, continuously enriching the content scenarios and technical support of advance rulings. First, popularize digitalized processes. Through online application, acceptance, and response, achieve traceability and retrievability of processes, saving administrative resources for both tax authorities and taxpayers. Second, explore AI-assisted rulings. For simple and repetitive rulings, AI-based preliminary judgment tools can be developed in the future for batch processing; for complex rulings, AI knowledge bases can be used for auxiliary analysis. Third, increase scenarios in emerging complex fields. Beyond corporate restructuring, emerging or complex fields such as wealth inheritance, trust income, and the sharing economy can also be explored for inclusion in advance tax ruling scenarios, bringing tax governance into the ex-ante stage.

II. Tax Administrative Reconsideration and Administrative Litigation: The Main Channels for Resolving Disputes

A.Concept

Tax administrative reconsideration is a system whereby the tax authority reviews and makes decisions on tax administrative acts in accordance with the law based on an application by a taxpayer. It is an internal supervision mechanism of the tax authority. Tax administrative litigation occurs when a taxpayer, dissatisfied with an administrative act made by the tax authority or a tax administrative reconsideration decision, applies to a court for judicial relief. The court reviews whether the tax authority has performed its duties in accordance with the law, and it belongs to an external supervision mechanism.

Since modern times, with the increased intervention of governments in socio-economic activities, disputes between administrative organs and citizens or legal persons have also increased significantly. Due to the limited nature of judicial resources and the strictness of judicial procedures, courts are unable to handle so many cases, thus the administrative reconsideration system developed rapidly. By setting up reconsideration procedures, both the pressure on courts can be reduced and administrative organs can be prompted to correct their own errors. Administrative reconsideration is characterized by professionalism, convenience, efficiency, and low cost, while administrative litigation has longer trial periods and its rulings are final.

Tax administrative reconsideration and administrative litigation are both different rights relief procedures and are closely related. If a taxpayer is dissatisfied with an administrative reconsideration decision, they can file an administrative lawsuit. The purpose of both procedures is to resolve disputes, protect the legitimate rights and interests of taxpayers, and urge tax authorities to exercise their powers in accordance with the law.

B.Procedures and Stages

Tax administrative reconsideration is generally divided into procedures such as the taxpayer submitting an application, the reconsideration organ conducting a review, and making a decision. The review is conducted by another department (the reconsideration organ) independent of the organ that made the administrative act. To ensure efficient resolution of administrative disputes, there are time limits for both the reconsideration organ's review and its decision-making. Regarding tax administrative litigation, due to different legal and cultural traditions in different countries (regions), there are distinct characteristics in court structure and institutional arrangements.

For example, in China, a taxpayer may file an application for administrative reconsideration within 60 days from the date they become aware of the tax administrative act. The tax reconsideration organ (the superior organ of the tax authority that made the administrative act) shall, upon receiving the application, review it and decide whether to accept it within 5 days. Within 7 days from the date of accepting the application, the reconsideration organ shall send a copy of the application to the respondent. The respondent shall submit a written reply within 10 days from the date of receiving the copy. The tax reconsideration organ shall make an administrative reconsideration decision within 60 days from the date of accepting the application. For cases with clear facts, clear rights and obligations, and minor disputes, summary procedures may be applied, and the reconsideration organ needs to make a decision within 30 days from the date of accepting the application. If a taxpayer is dissatisfied with the administrative act of the tax authority or the reconsideration decision, they may file an administrative lawsuit with the court. The court shall decide whether to accept the case within 7 days of receiving the complaint, and within 5 days from the date of acceptance, send a copy of the complaint to the defendant. The defendant shall submit a defense opinion to the court within 15 days from the date of receiving the copy of the complaint. The court shall render a first-instance judgment or ruling within 6 months from the date of acceptance. If a party is dissatisfied with the first-instance judgment or ruling, they may appeal to the next higher court. The appellate court shall render a judgment or ruling within 3 months from the date of receiving the appeal petition. The "two-instance final adjudication" system is implemented in administrative litigation. The judgment or ruling made by the appellate court has final legal effect.

In Macao SAR, China, the Macao Special Administrative Region Finance Services

Bureau is responsible for tax administration. The Finance Services Bureau has departments such as the Department of Public Finance and Taxation, the Department of Tax Execution, and the Department of Public Audit and Tax Inspection and Litigation, which are responsible for the assessment, collection, and management of taxpayers' payable taxes. If a taxpayer disagrees with tax collection, penalties, or other acts, they may raise an objection to the Finance Services Bureau. If the objection is wholly or partially rejected, they may file an administrative appeal to the Chief Executive. A decision made by the Chief Executive on the administrative appeal can be challenged in court. Taxpayers may also directly file an administrative appeal to the Chief Executive without going through the objection procedure, and if dissatisfied with the decision on the appeal, they may sue in court. The judicial organs of the Macao SAR include the Court of First Instance, the Intermediate Court, and the Court of Final Appeal. The Court of First Instance includes the Primary Court (Civil Court, Criminal Prosecution Section, Minor Civil Court, Criminal Court, Labor Court, Family and Minors Court) and the Administrative Court. The Administrative Court has jurisdiction over disputes related to administration, taxation, and customs. If a party is dissatisfied with the judgment of the Administrative Court, they may appeal to the Intermediate Court; if dissatisfied with the judgment of the Intermediate Court, they may appeal to the Court of Final Appeal.

Furthermore, according to Article 41.4 of Mongolia's Tax Base Law, tax authorities shall audit the taxpayer's performance of tax obligations based on risk assessment or the taxpayer's request. To prevent the recurrence of violations and deficiencies found during tax audits, state tax inspectors prepare a "Tax Audit Recommendation Letter" and hand it to the taxpayer. If, after undergoing a tax audit, the taxpayer believes there is a problem with the decision made by the state tax inspector based on the audit results, they may, in accordance with Article 47.1 of the Tax Base Law, file a complaint with the corresponding Dispute Resolution Committee within 30 days, or file a lawsuit with the court.

Since the purpose of the administrative reconsideration system is to effectively resolve disputes, some countries have set up mediation procedures within their reconsideration systems. Moreover, with the development of information technology, some countries actively apply big data analysis methods to tax administrative reconsideration or litigation to improve work efficiency.

C.Typical Cases

1. China's Provisions on Mediation and Settlement

If a taxpayer is dissatisfied with an administrative act of the tax authority and applies for administrative reconsideration, mediation or settlement may be conducted. Mediation and settlement are essentially the same: the taxpayer and the tax authority reach a consensus on the handling of a certain matter through friendly negotiation.

The difference between the two lies in the form of dispute resolution: settlement is entirely based on friendly negotiation between the two parties, with autonomy of will, requiring no third-party participation; mediation involves the tax reconsideration organ acting as an intermediary to facilitate an agreement. Mediation and settlement are rooted in profound traditional Chinese culture and practiced in the daily lives of the people, playing a significant role in stabilizing social order and promoting social progress. When applying mediation and settlement to resolve tax administrative disputes, attention should be paid to the following issues: First, adhere to the principles of voluntariness and legality. "Legality" means that the premise of mediation and settlement is clear facts and clear legal relationships. Investigating and clarifying case facts and straightening out legal relationships is the basis for making tax reconsideration decisions, and it equally applies to mediation and settlement. "Voluntariness" means that the content of the mediation or settlement agreement should reflect the true intentions of the parties. Second, mediation and settlement also emphasize efficiency. To deeply carry out mediation and settlement work and resolve disputes to the greatest extent, the time limit for administrative reconsideration is suspended during the mediation or settlement period. However, if a mediation or settlement agreement cannot be reached, the tax reconsideration organ shall promptly make a reconsideration decision. Third, to ensure the implementation of the mediation agreement, the tax reconsideration organ will require the respondent to report on the performance of the mediation agreement within a specified period.

2. France's Approach to Digital Challenges

For the legal function department of the French Tax Authority, the opportunities and challenges in the coming years include: coping with increasing workloads despite a reduction in staff numbers; knowledge gaps caused by retirements; unifying processing flows and operating standards; improving information retrieval so that employees can focus on higher value-added analytical work; better sharing the French Tax Authority's positions with taxpayers; and maintaining competitiveness in technical competition with law firms and other institutions. To address these opportunities and challenges, the French Tax Authority has launched a long-term project (2023-2030) to fully utilize the various opportunities brought by digitalization. The project includes: first, establishing a single portal for all applications, enabling taxpayers to access real-time information on the status of their requests, and facilitating internal monitoring and collaborative work. Second, establishing a unified document database that aggregates all opinions issued by the French Tax Authority on disputed claims, and linking an expert system to this database. Third, developing a system to provide response suggestions for simple and repetitive applications to legal staff.

3. Saudi Arabia's "AI Njaz" Project

The "AI Njaz" project provides solutions for the core business of the General

Secretariat of the Tax Commission of Saudi Arabia involving legal and tax processes, covering the entire process from case registration to ruling issuance. The project aims to utilize various technologies to improve decision-making quality, prevent inconsistent rulings, ensure compliance, and analyze historical cases. The project identified 20 business challenges and addressed them through the following four aspects: First, data sorting. Relying on classification technology to detect duplicate cases, identify similarities, and conduct consistency checks to avoid inconsistent rulings in similar cases. Second, compliance analysis. Focusing on the case acceptance criteria of the General Secretariat of the Tax Commission, conducting compliance reviews of application documents by applying advanced data science techniques. Third, decision intelligence application. Providing decision support for employees by applying advanced data science techniques such as regression models. This covers drafting decision documents, quality assurance, and quality control of core fields. Fourth, artificial intelligence analysis. Utilizing computational power to ensure logical consistency and coherence between historical rulings and provide predictive basis for future trends.

D.Future Outlook

The future of tax administrative reconsideration and administrative litigation is one of functional complementarity, procedural connection, and technological integration. Administrative reconsideration will become the "first line of defense" for resolving tax administrative disputes by virtue of its efficiency advantage, while administrative litigation is the "last line of defense" guarding the bottom line of the rule of law. The benign interaction between the two will jointly promote the development of the tax administrative dispute resolution system in a fairer, more efficient, and more convenient direction, providing strong support for safeguarding the legitimate rights and interests of taxpayers, and supervising and guaranteeing that tax authorities exercise their powers in accordance with the law.

III. Mutual Agreement Procedure: A Powerful Measure to Resolve Cross-Border Disputes

A. Concept of the Mutual Agreement Procedure

For cross-border tax disputes, apart from the general legal remedies stipulated in domestic laws, many countries regard the Mutual Agreement Procedure (MAP) under tax treaties as one of the main methods for resolving disputes. According to the mutual agreement clause of a tax treaty, a cross-border taxpayer may apply to the competent tax authority to initiate the MAP, and the competent authorities of both contracting parties negotiate to resolve the relevant cross-border tax dispute. This is both the main means for tax treaties to safeguard taxpayers' rights and interests, and an obligation that the contracting parties to the treaty must fulfill. The MAP aims to solve problems arising in the broadest sense during the application of tax treaties. In practice, depending on the type of cross-border tax dispute, it can be divided into two types: MAP for issues concerning the interpretation and application of tax treaties (hereinafter referred to as Tax Treaty MAP) and MAP for transfer pricing disputes. Based on taxpayer applications, competent tax authorities may also conduct negotiations for bilateral (or multilateral) advance pricing arrangements under the MAP to prevent double taxation.

Action 14 of the OECD/G20 Base Erosion and Profit Shifting (BEPS) project aims to establish a minimum standard to make the MAP under international tax treaties more effective and efficient, and to supervise the implementation of this standard through a peer review mechanism. From 2016 to 2022, more than 80 countries and regions completed the peer review. The minimum standard requires jurisdictions to strive to resolve MAP cases within an average of 24 months. However, due to differences in tax systems, case complexity, and resource allocation among countries, there are obvious differences in their average processing times. According to the latest data released by the OECD in October 2025, the global average time to resolve tax disputes through MAP in 2024 was 27.4 months. Among them, different types of cases took different amounts of time: cases concerning the interpretation and application of tax treaties averaged 24.5 months; transfer pricing cases averaged 30.9 months.

B. Main Content

1. Tax Treaty Mutual Agreement Procedure

The Tax Treaty Mutual Agreement Procedure refers to the competent authorities of the contracting parties to a tax treaty jointly handling issues related to the interpretation and application of the tax treaty through consultation in accordance with the relevant provisions of the treaty. The main purpose of the Tax Treaty MAP is to ensure the correct and effective application of tax treaties, effectively avoid double taxation, and eliminate differences arising from the interpretation or application of tax treaties between the contracting parties. Currently, there are more than 3,000 tax treaties effectively in force worldwide, and this huge network of tax treaties provides an effective tax dispute resolution mechanism for cross-border taxpayers and creates a fair and favorable tax environment.

2. Mutual Agreement Procedure for Transfer Pricing Disputes

The MAP for transfer pricing disputes refers to the process where, based on a voluntary application by an enterprise, the competent tax authorities of the contracting parties jointly handle cross-border tax disputes arising from transfer pricing investigations and adjustments conducted by one contracting party to a tax treaty regarding related-party transactions between enterprises, through the MAP in accordance with the relevant provisions of the tax treaty.

The MAP for transfer pricing disputes is one of the more mature tax certainty tools, offering many advantages. First, it avoids double taxation. Through mutual agreement and corresponding adjustment mechanisms, it can help taxpayers eliminate double taxation in cross-border related-party transactions. Second, it increases tax certainty. It provides enterprises with a clear path for resolving cross-border tax disputes, helping them reduce tax compliance risks and operating costs, and enhancing certainty in taxation and operations. Third, it promotes international cooperation. It strengthens coordination and cooperation between competent tax authorities in different jurisdictions, creating a stable and predictable investment environment for cross-border taxpayers.

3. Bilateral (Multilateral) Advance Pricing Arrangements

A bilateral (multilateral) Advance Pricing Arrangement (APA) refers to an agreement reached after negotiation between the competent tax authorities of the contracting parties (or multiple parties) based on a taxpayer's application, in accordance with the relevant provisions of signed tax treaties and relevant domestic laws and regulations, regarding the pricing principles and calculation methods for related-party transactions between multinational enterprises based on the arm's length principle. The arrangement can apply to future years and can also be retrospectively applied to past years.

A multilateral APA involves the competent tax authorities of three or more jurisdictions. It is essentially the same as a bilateral APA but can be applied to more complex cross-border related-party transactions. In a multilateral APA, participating competent tax authorities can conduct negotiations together or separately in pairs. Because it often requires coordinating the positions of multiple jurisdictions' competent tax authorities, a multilateral APA may take longer, involve more items for negotiation, and be more difficult to reach a consensus on. However, it can provide enterprises with more comprehensive tax certainty.

Bilateral (multilateral) APAs are agreements reached on the basis of voluntariness, equality, and mutual trust among the competent tax authorities of the participating jurisdictions and the cross-border taxpayer(s), based on a taxpayer's application. They are services provided by tax authorities to cross-border taxpayers, offering an effective way to enhance understanding, strengthen cooperation, and reduce confrontation among tax authorities and enterprises. They are also an effective means for the competent tax authorities of contracting parties and enterprises to handle enterprise transfer pricing issues and potential transfer pricing disputes through cooperation, offering multiple advantages.

C.Typical Cases

1. China's Tax Treaty Situation

China has currently signed and has in force 110 tax treaties (including arrangements, hereinafter the same). All treaties stipulate that relief can be obtained through the Mutual Agreement Procedure. Cases of Tax Treaty MAP are governed by the "Implementation Measures for the Mutual Agreement Procedure of Tax Treaties" (Announcement No. 56 [2013] of the State Taxation Administration). Cases of MAP for transfer pricing disputes are governed by the "Special Tax Investigation Adjustment and Mutual Agreement Procedure Management Measures" (Announcement No. 6 [2017] of the State Taxation Administration). China has an APA mechanism and allows retrospective adjustments. If a taxpayer's related-party transactions in previous years are the same as or similar to those covered by the APA years, upon the taxpayer's application, the tax authority may retrospectively apply the pricing principles and calculation methods determined in the APA to the assessment and adjustment of such related-party transactions in previous years. The maximum retrospective period is ten years.

2. Singapore's Tax Treaty Situation

Singapore has currently signed and has in force 94 tax treaties. All treaties stipulate that relief can be obtained through the Mutual Agreement Procedure. Cases of Tax Treaty MAP are governed by the "E-Tax Guide on Avoidance of Double Taxation Agreements" (Fourth edition, released in January 2026) issued by IRAS, while cases of MAP for transfer pricing disputes are governed by the "E-Tax Guide on Transfer Pricing Guidelines" (Ninth edition, released in June 2026). Singapore has an APA mechanism and generally roll-back years not exceeding 2 years (limited to bilateral/multilateral APAs).

3. Greece's Tax Treaty Situation

Greece has currently signed and has in force 57 tax treaties. Except for one treaty, all stipulate that relief can be obtained through the Mutual Agreement Procedure. Cases of MAP are governed by the "MAP Manual" and Decision No. 1226/2020 issued by IAPR. Greece has an APA mechanism and allows retrospective adjustments (limited to bilateral/multilateral APAs), with a maximum retrospective period of up to 4 years (the APA coverage period itself is a maximum of 4 years, and there is no clear statutory upper limit for retrospective application, but it is usually comparable to the APA coverage period).

D. Future Outlook

The world is currently undergoing a new round of major transformations, and the existing international system and order are facing new challenges. Consultation should become the main method of modern international governance—resolving disputes through dialogue and bridging differences through consultation. Expanding tax treaty networks, introducing MAP mechanisms and APA mechanisms to improve the business environment, increase tax certainty, and enhance the efficiency and quality of dispute resolution are in line with the ever-changing global tax landscape, demonstrate the vitality of multilateral cooperation, and meet the needs of multinational enterprises operating in a highly interconnected world.