



A3 ADVISORS LLP
ALLEGIANCE-ASTUTE-ADEPT



TRANSFER PRICING RECKONER

(India and UAE)



TO KNOW MORE ABOUT US,
SCAN HERE

A B O U T

In the evolving landscape of international taxation, Transfer Pricing has gained significant prominence, particularly in the context of developing economies like India. As multinational enterprises increasingly engage in cross-border transactions, determining the appropriate pricing of such dealings between associated enterprises has become a key area of regulatory focus.

India's transfer pricing regulations, first introduced in 2001, have since undergone continuous refinement, aligning closely with global standards such as the OECD Transfer Pricing Guidelines. The introduction of measures under the Base Erosion and Profit Shifting (BEPS) framework and the implementation of the General Anti-Avoidance Rules (GAAR) have further reinforced India's commitment to curbing tax avoidance and ensuring that profits are taxed where economic activities occur and value is created.

This reckoner to provide a clear and practical understanding of the Indian transfer pricing regime in the context of international developments. It covers Transfer Pricing Applicability, Methods, Range concept, Transfer pricing Assessment, safe harbour, Advance pricing Agreement, Sample TP and compliance obligations. Special attention is given to the interplay between domestic law and global initiatives, including BEPS Action Plans and OECD guidelines, which influence India's transfer pricing landscape.

Designed for tax professionals, finance executives, corporate leaders, and students, this reckoner serves as a compact yet insightful reference for navigating the complexities of transfer pricing in India. We hope it will aid readers in achieving both compliance and strategic clarity in this critical area of international taxation.

Disclaimer

This transfer pricing reckoner is prepared for general guidance only. While we have made sincere efforts to ensure accuracy and minimize errors, the content may not reflect the most current legal or regulatory developments.

The information provided is not professional advice and should not be relied upon as such. We recommend consulting qualified tax or legal advisors for advice specific to your situation.

INDEX

S.NO	DESCRIPTION	PAGE NUMBER
1	History	04-05
2	Applicability	06-09
3	Methods of Transfer pricing	10-13
4	Range concept	14
5	Transfer Pricing Assessment	15
6	Safe harbour – Section 92CB	16-20
7	Advance Pricing Agreement – Section 92CC	21-25
8	Transfer Pricing Documentation	26-27
9	Secondary Adjustment	28
10	Thin Capitalisation Rules	29-31
11	Important Due dates for Transfer Pricing	32-33
12	Transfer Pricing Documentation in UAE	34-42
13	BEPS and Transfer Pricing : Addressing Global Tax Avoidance	43-47
14	Interplay of GAAR and Transfer Pricing	48
15	Sample TP Document	49-70
16	About A3 Advisors LLP	71-75



1. History

Transfer pricing regulations have evolved significantly over the past century, driven by the need to address the shifting of profits across borders to reduce tax obligations. This evolution spans from the early days of legislation to the more sophisticated frameworks that govern international transactions today.

The OECD's Role: 1979-1984

A significant turning point in the history of transfer pricing came with the establishment of the Organisation for Economic Co-operation and Development (OECD) in 1961. By 1979, the OECD published its influential report on "Transfer Pricing and Multinational Enterprises," which outlined the need for standardization in transfer pricing practices. The report prescribed three standard methods for computing the Arms' Length Price (ALP):

- a. Comparable Controlled Price
- b. Resale Price
- c. Cost Plus

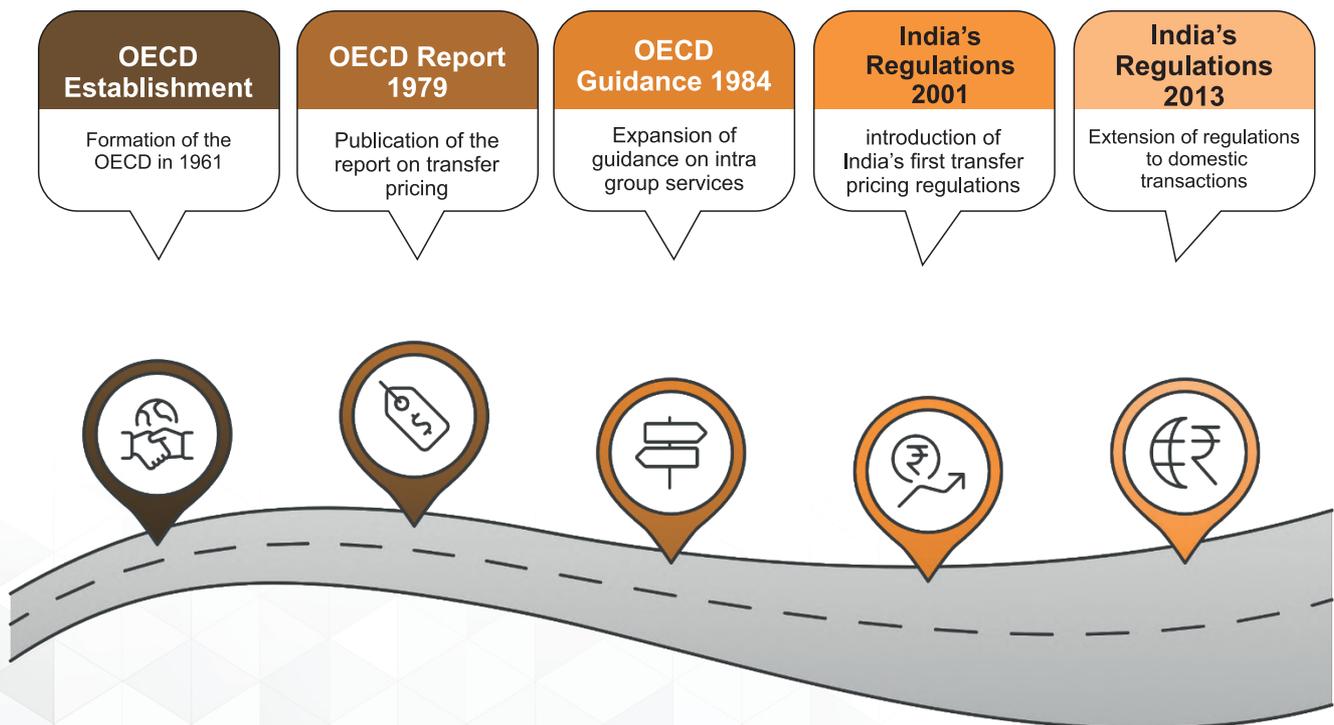
In 1984, the OECD further expanded its guidance, particularly regarding intra-group services and issues such as intra-bank interest, which could not be easily resolved under existing tax treaties.

India's First Foray: 2001-2013

India introduced its first Transfer Pricing Regulations in 2001 through an amendment to the Income Tax Act of 1961. This amendment included new sections (92A to 92F) that specifically dealt with the determination of income from international transactions involving non-residents. The regulations required taxpayers to maintain detailed documentation and submit an accountant's report if the transaction volume met a prescribed threshold.

In a significant development in 2013, India's transfer pricing regulations were extended to cover specified domestic transactions. This marked a major step in expanding the scope of transfer pricing laws within India, ensuring that the country's tax system would address not just international, but also domestic transactions involving related parties.

Evolution of Transfer Pricing Regulations



2. Applicability

International Transactions with Associated Enterprises (AEs)

An international transaction involves exchanges between entities located in different countries, often concerning goods, services, or financial instruments. Transfer pricing regulations aim to guarantee that transactions between Associated Enterprises (AEs) occur at arm's length, reflecting prices that independent entities would negotiate under comparable conditions. This approach prevents profit shifting to low-tax areas and promotes equitable taxation.

Key points regarding International Transactions:

Associated Enterprises (AEs) Enterprise as per Section 92A (1) : Under transfer pricing laws, AEs are defined as entities that have a relationship through control or ownership, or through direct or indirect influence over each other. This could include parent companies and subsidiaries, joint ventures, or entities with common ownership interests.

Criteria for Enterprise Association

1. $\geq 26\%$ in another enterprise
2. Loan $\geq 51\%$ of total assets
3. Guarantee of $\geq 10\%$ of total borrowings
4. $\geq 10\%$ interest in Firm/AOP/BOI

Capital Criteria

1. Appointment of $>50\%$ Directors or one or more
2. Executive Directors by another enterprise
3. Appointment by the same person in both enterprises

Management Criteria

1. 100% dependency on intangibles
2. $\geq 90\%$ Raw Material supply
3. Sale under influenced pricing
4. One enterprise controlled by an individual
5. One enterprise controlled by HUF, and other by:
 - A member of HUF
 - Relative of HUF member
 - Jointly by member and relative

Control Criteria

Association Definition



Examples of International Transactions:

- a. Sale or purchase of goods: For example, a parent company in one country selling raw materials to its subsidiary in another.
- b. Provision of services: A management or consultancy service provided by one entity to a related company across borders.
- c. Intellectual Property (IP) Transfers: Licensing or selling intellectual property (e.g., patents, trademarks) between related companies located in different countries.
- d. Financing arrangements: Loans or interest arrangements between related entities in different countries.

Transactions with Entities in Notified Jurisdictional Areas (NJAs)

A Notified Jurisdictional Area (NJA) is a country or region identified by tax authorities as a potential risk for tax avoidance or evasion, often due to favourable tax laws or lack of transparency, leading to increased scrutiny of related transactions.

Key Points regarding Transactions with NJAs:

- **Purpose of NJAs:**

Tax authorities target NJAs to prevent the misuse of tax shelters and offshore havens, which might facilitate tax avoidance strategies such as profit shifting. Such jurisdictions often have low or no taxation on certain types of income, which incentivizes multinational corporations to route their income through these areas.

Examples of NJAs:

Jurisdictions that are typically classified as NJAs may include well-known tax havens like Bermuda, Cayman Islands, Luxembourg, and Panama. These countries or territories may not have a comprehensive tax system or may offer preferential tax rates that are not aligned with the Arm's Length Principle.

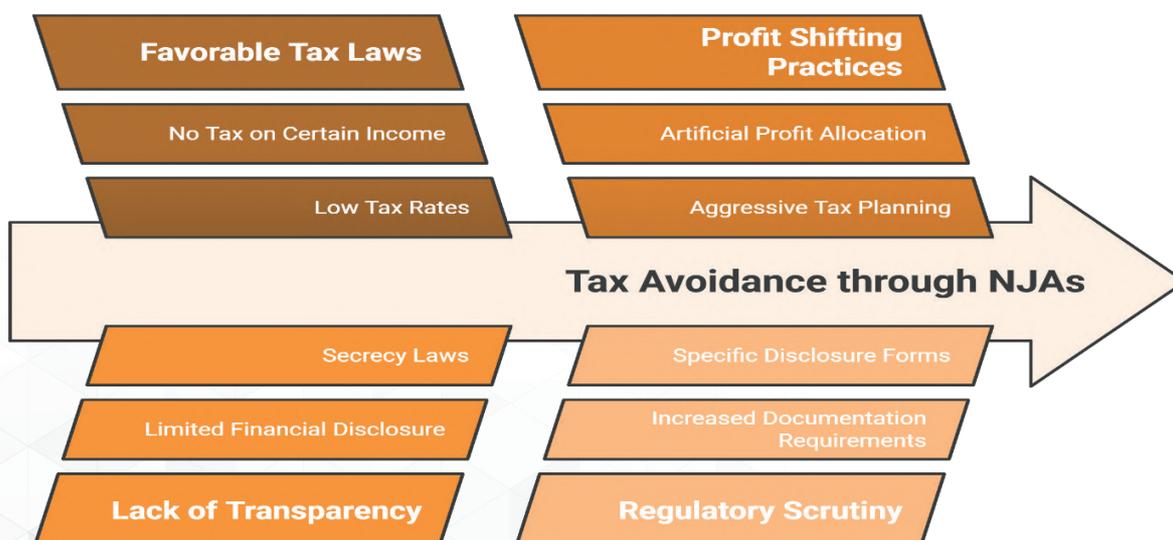
- **Implications of Transactions with NJA Entities:**

Scrutiny on Transactions: Any transaction between a domestic entity and a foreign entity located in a Notified Jurisdictional Area will receive additional scrutiny from tax authorities.

Increased Documentation: The assessee may be required to maintain more detailed documentation to demonstrate that transactions are conducted at arm's length and not used for aggressive tax avoidance.

Reporting Requirements: Specific disclosure forms or reports may be required for transactions involving NJA entities. These could involve additional information about the parties involved, the nature of the transaction, and the pricing methods used.

Analyzing Tax Avoidance through NJAs



Preventing Profit Shifting: Transfer pricing provisions help ensure that profits are allocated to the jurisdictions where the actual economic activities take place, preventing the artificial shifting of profits to low-tax jurisdictions.

Specified Domestic Transactions (SDTs)- Section 92BA

Historically, transfer pricing regulations primarily targeted international transactions. However, numerous countries are now applying these rules to Specified Domestic Transactions (SDTs) to prevent profit shifting and ensure fair pricing between related domestic entities, similar to transactions with unrelated parties.

Key Points regarding Specified Domestic Transactions (SDTs):

- **Definition of SDTs:**

Specific domestic transaction means any of the following transactions, not being an international transaction, where the aggregate of such transactions in a previous year **exceed 20 crores**:

- Any transaction referred to in Section 80A.
- Any transfer of goods or services referred to in Section 80-1A(8).
- Any business transacted between the assessee and other person as referred to in Section 80-1A(10).
- Transaction specified under Section 10AA (exemption of income for units in SEZ) or referred to in any other section under Chapter VI-A to which provisions of Section 80-1A(8) and 80-1A(10) are applicable)
- Any business transacted between the persons referred in Section 115BAB(6)
- Any other transaction, as may be prescribed.

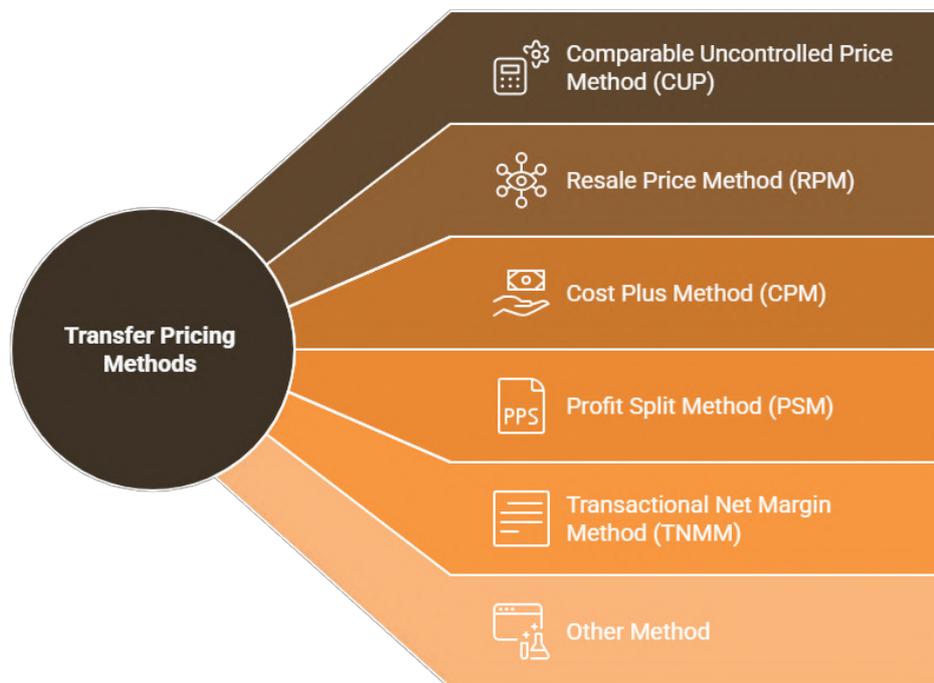
- **Documentation and Compliance:**

Just like with international transactions, SDTs are subject to detailed documentation requirements. The assessee must provide sufficient proof that the transactions adhere to the Arm's Length Principle.

3. Methods of Transfer-pricing

The Organisation for Economic Co-operation and Development (OECD), which has identified five key methods for determining the arm's length price (ALP). These methods offer various approaches to price intercompany transactions, depending on the nature of the transaction, the available data, and the economic context.

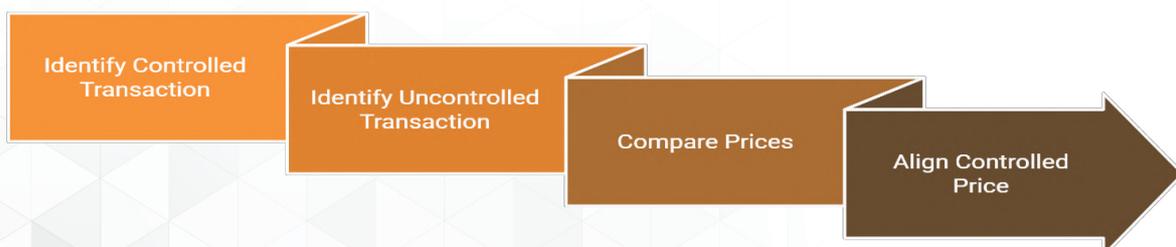
Exploring Transfer Pricing Methods



- **Comparable Uncontrolled Price (CUP) Method**

The CUP Method compares the price charged in a controlled transaction (between associated enterprises) with the price charged in a comparable uncontrolled transaction (between independent enterprises). If there is a comparable uncontrolled price, the price in the controlled transaction should ideally align with that price.

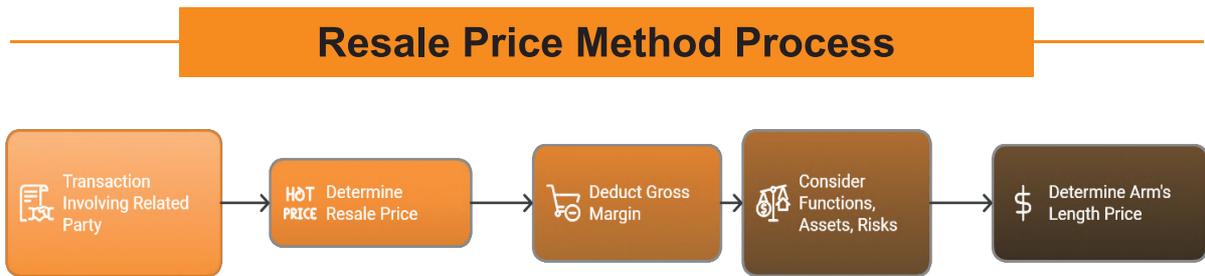
CUP Method Price Comparison Sequence



- **Resale Price Method (RPM)**

It is commonly used in transactions where a product is purchased from a related party and subsequently resold to an independent party.

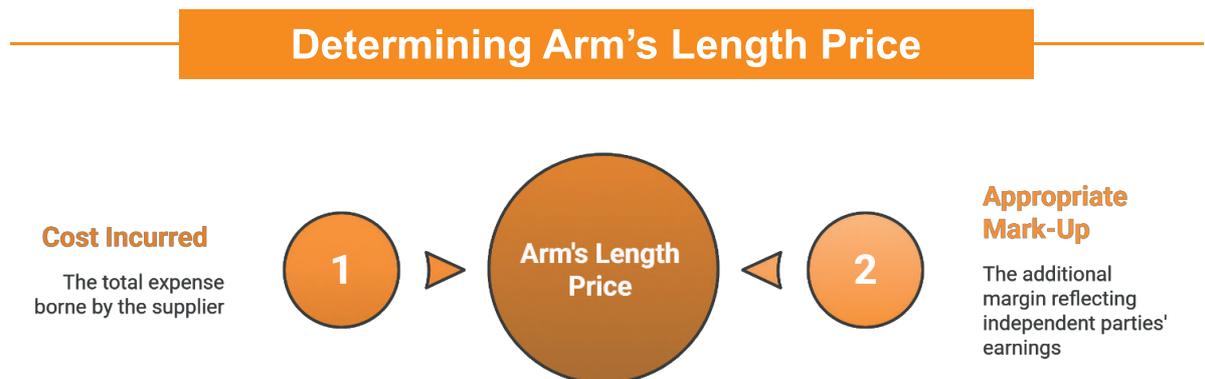
To determine the arm's length price based on the resale price is adjusted by deducting an appropriate gross margin to account for the functions performed, assets used, and risks assumed by the reseller. This gross margin reflects the value added by the reseller in the distribution process.



- **Cost Plus Method (CPM)**

It is especially suitable for situations where the reseller or manufacturer adds value to the product or service through significant modifications or processing. Under the CPM, the arm's length price is determined by adding an appropriate mark-up to the cost incurred by the supplier of the goods or services.

The mark-up applied to the costs typically reflects the margin earned by independent parties performing similar functions in comparable transactions.



- **Profit Split Method (PSM)**

This method is specifically relevant for complex, integrated business models, where the contributions of each related party to the overall transaction cannot be easily separated. Under the Profit Split Method, the total profit generated from the transaction between AEs is allocated among them based on their relative contributions.

The allocation of profits is made based on the economic contributions of each party involved, considering factors such as the functions performed, assets used, and risks borne by each enterprise.

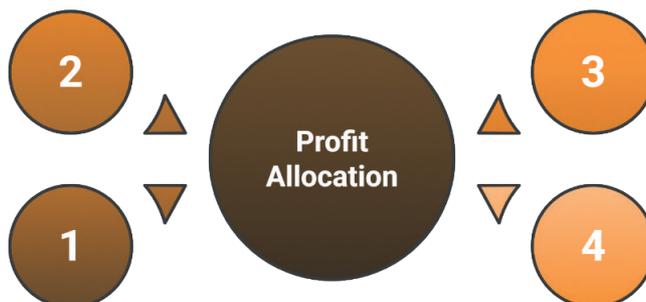
Profit Allocation in Integrated Business Models

Functions Performed

The specific activities and operations carried out by each party

Economic Contributions

The financial input each party provides to the transaction



Assets Used

The resources and assets utilized in the business model

Risks Borne

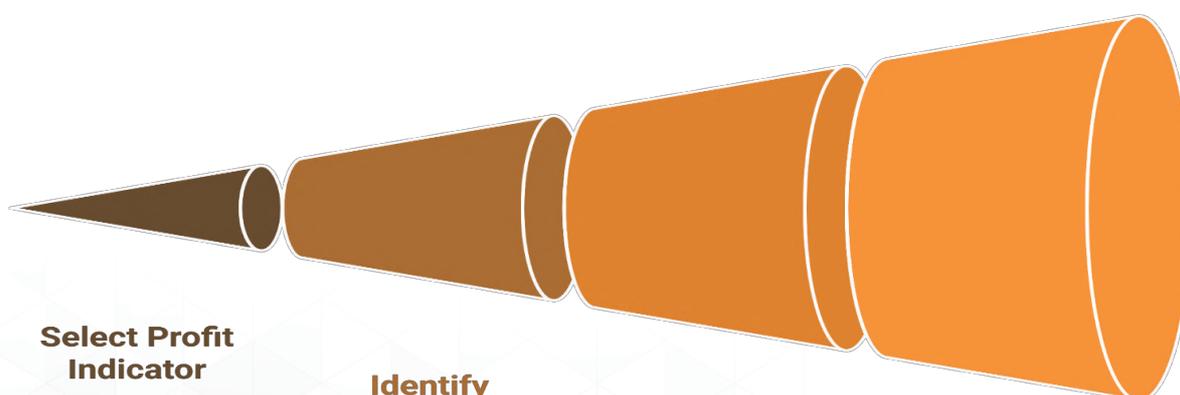
The potential risks and liabilities each party assumes

- **Transactional Net Margin Method (TNMM)**

The TNMM compares the net profit margin (usually operating margin) realized by a taxpayer from a controlled transaction (between related parties) with the net profit margin earned in similar transactions by independent, comparable entities.

The TNMM involves selecting a suitable profit indicator and comparing the net profit margin realized by the taxpayer in the controlled transaction with that of an independent entity engaged in a comparable transaction. The net profit margin is a broad measure, typically reflecting the outcome of the overall business activity (rather than specific transaction prices).

TNMM Process for Transfer Pricing



Select Profit Indicator

Choose a relevant profit measure

Identify Comparable Entities

Find independent entities for comparison

Calculate Net Profit Margin

Compute the margin for both parties

Compare Margins

Analyze differences between margins

- **Other Method**

Covers methods not specifically listed but which take into account the price that would have been charged between unrelated parties under comparable circumstances.

Introduced for flexibility, especially in complex or unique transactions.

Choose the best pricing method for complex transactions



Specific Methods
Provide structured
guidelines



Other Method
Offers flexibility in unique
cases

4. Range Concept

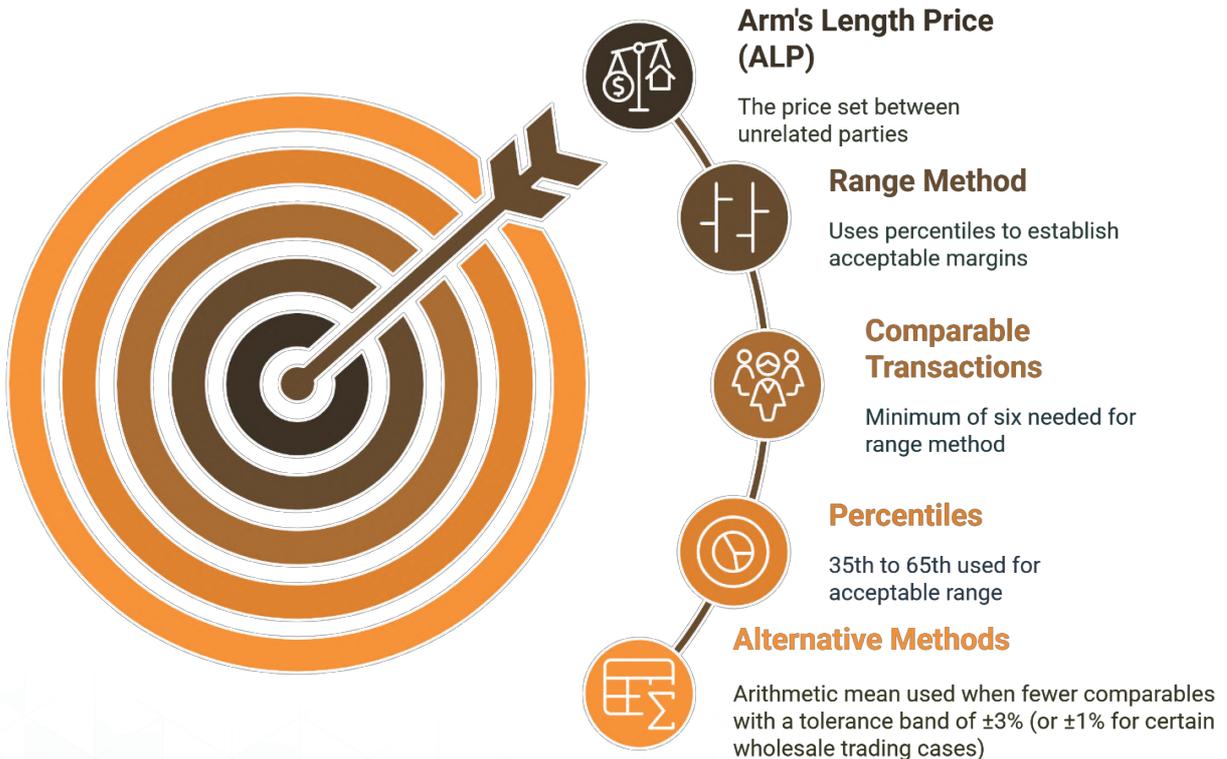
The range concept in Indian Transfer Pricing (TP), introduced under Rule 10CA of the Income-tax Rules, 1962, is used to determine the arm's length price (ALP) when **at least** six comparable transactions are available.

Under this method, the profit margins of comparable companies are arranged in ascending order, and the **35th percentile to 65th percentile** is considered the acceptable arm's length range.

If the tested party's margin falls within this range, the transaction is deemed to be at arm's length. However, if it falls outside, **the median (50th percentile)** of the dataset is considered the ALP, requiring adjustments.

If fewer than six comparables are available, the arithmetic mean method is used with a tolerance band of **±3% (or ±1% for certain wholesale trading cases)**.

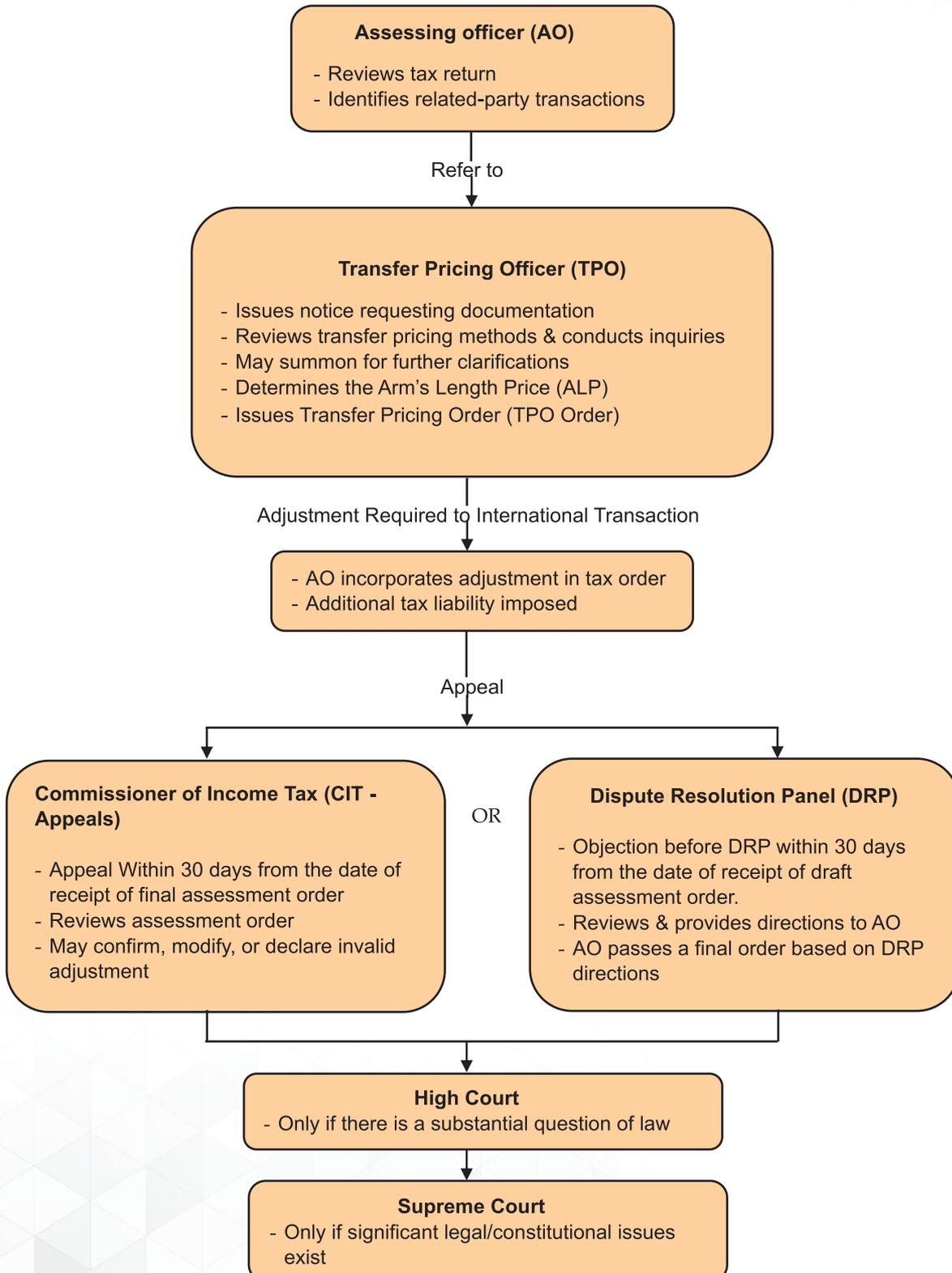
Indian Transfer Pricing Range Concept



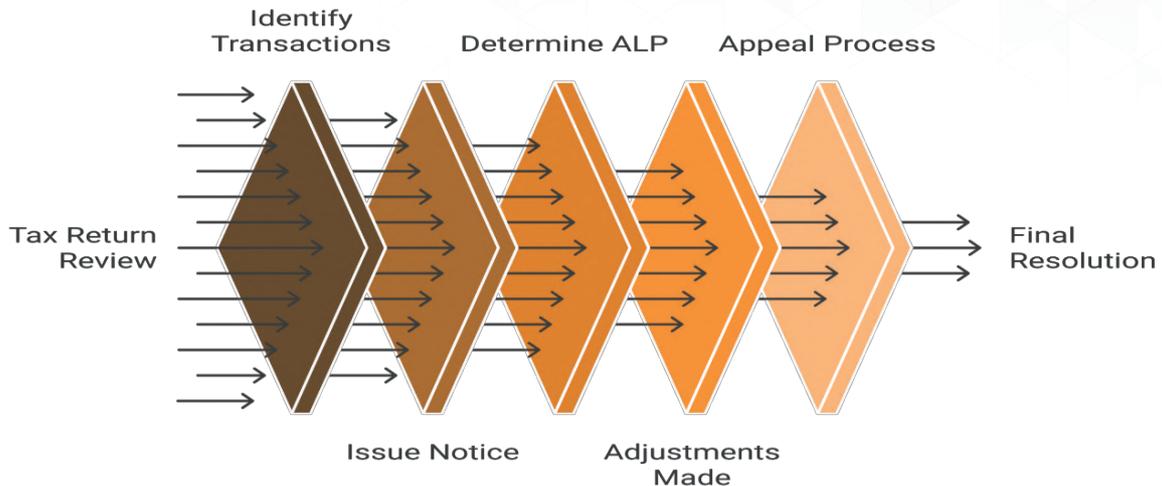
5. TP Assessment

If the AO doubts compliance with transfer pricing norms, they refer the case to the TPO after obtaining approval from the Principal Commissioner of Income Tax (PCIT) or Commissioner of Income Tax (CIT).

During assessment, the tax authorities review the transfer pricing documentation maintained by the taxpayer, including comparability analysis, pricing methodologies, and justification of transactions. If the assessing officer finds discrepancies or determines that transactions are not at arm's length, they may make adjustments to taxable income, leading to additional tax liabilities and penalties.



Transfer Pricing Assessment Funnel



6. Safe Harbour – Section 92CB

Provide a mechanism for transfer pricing by prescribing pre-determined margins for certain eligible international transactions.

These rules apply to specified categories of taxpayers and transactions, if a taxpayer follows the prescribed margins, the Transfer Pricing Officer (TPO) will not challenge the pricing of transactions.

The Central Board of Direct Taxes (CBDT) defines these rules to reduce litigation and provide certainty to taxpayers.

Safe Harbour is applicable to various sectors, including IT and ITeS services, knowledge process outsourcing (KPO), contract R&D, and certain financial transactions like corporate guarantees and loans to foreign subsidiaries.

Taxpayers opting for Safe Harbour must file **Form 3CEFA** before the due date, and once accepted, the pricing is deemed to be at arm's length.

However, the Safe Harbour benefit is available only for a specific tenure and does not apply to complex or high-value transactions that require detailed transfer pricing scrutiny.

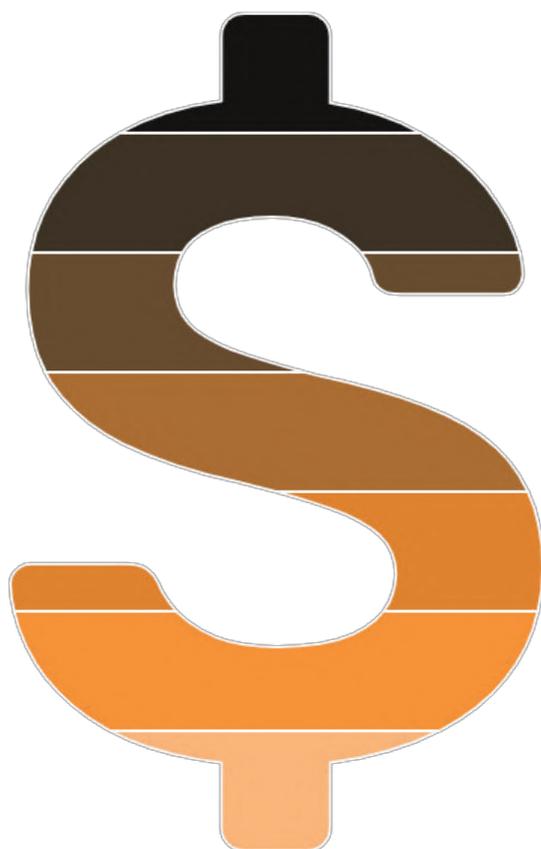
If a taxpayer does not opt for Safe Harbour, their transactions are subject to normal transfer pricing regulations and potential TPO assessment.

Applicable limit of Turnover increased from 200 Crore to 300 Crore for AY 2025-26 & AY 2026-27 respectively.

Eligible International Transactions under Safe Harbour rules

The eligible international transactions under the Safe Harbour Rules in India has been defined in Rule 10TB. The eligible assessee is as under:

Breakdown of Eligible Transactions under Safe Harbour Rules



Software Services

Engaging in SD's ,ITes or KPO services with low risk



Intra-group Loans

Providing loans within corporate groups

Corporate Guarantees

Offering guarantees for corporate dealings ≤ 100 cr Or >100 cr credit rating done by an agency registered with SEBI.



R&D Services

Conducting research and development for foreign clients



Pharmaceutical R&D

Developing pharmaceutical drugs for foreign clients

Auto Components Manufacturing

Manufacturing and exporting auto parts include lithium-ion batteries used in electric and hybrid electric vehicles



Low-value-adding Services

Receiving minimal value-added services from group members

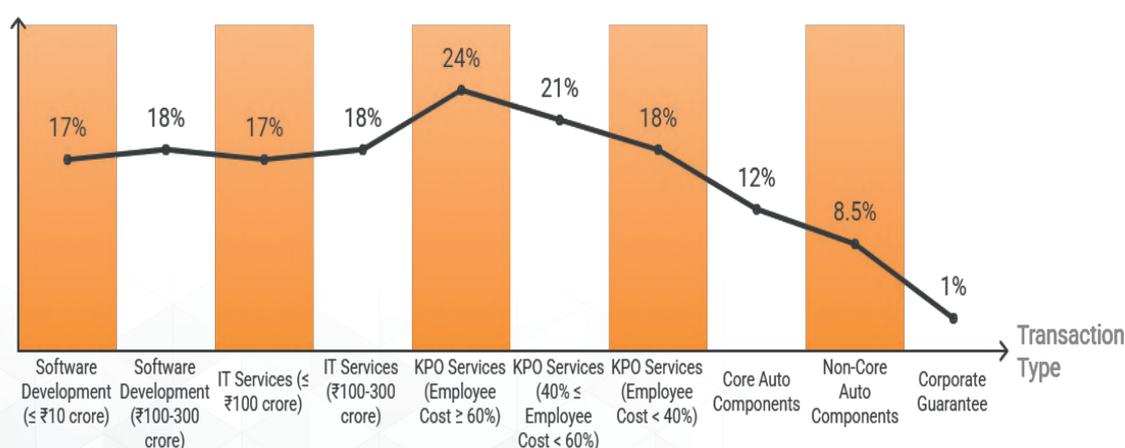
Applicable Margins for Eligible International Transactions under Safe harbour rules [for AY 2024-25, AY 2025-26, AY 2026-27]

S.no	Applicable International Transactions	Circumstances
1	Provision of software development services	<p>The eligible assessee must declare an operating profit margin on operating expenses of:</p> <ul style="list-style-type: none"> i. At least 17%, if the value of the international transaction does not exceed ₹10 crores. ii. At least 18%, if the value of the international transaction exceeds ₹100 crore but does not exceed ₹300 crore.
2	Provision of information technology enabled services	<p>The eligible assessee must declare an operating profit margin on operating expenses of:</p> <ul style="list-style-type: none"> i. At least 17%, if the total transaction value in the previous year does not exceed ₹100 crores. ii. At least 18%, if the total transaction value exceeds ₹100 crore but does not exceed ₹300 crore.
3	Provision of knowledge process outsourcing services	<p>The value of the international transaction shall not exceed a sum of 300 crores, and the operating profit margin reported by the eligible assessee from the eligible international transaction in relation to operating expenses must meet the Following conditions:</p> <ul style="list-style-type: none"> i. The operating profit margin is not less than 24%, and the Employee Cost in relation to the Operating Expense is at least 60%. ii. The operating profit margin is not less than 21%, and the Employee Cost in relation to the Operating Expense is at least 40% but less than 60%. iii. The operating profit margin is not less than 18%, and the Employee Cost in relation to the Operating Expense does not exceed 40%.

4	Advancing of Intragroup loans (Denominated in Indian Rupees)	<p>The interest rate applicable to the eligible international transaction must be no less than the one-year marginal cost of funds lending rate (MCLR) of the State Bank of India as of 1st April of the relevant previous year, plus the following:</p> <ul style="list-style-type: none"> i. 175 basis points, if the associated enterprise has a credit rating between AAA and A, or its equivalent. ii. 325 basis points, if the associated enterprise has a credit rating of BBB-, BBB, or BBB+, or its equivalent. iii. 475 basis points, if the associated enterprise has a credit rating between BB and B, or its equivalent. iv. 625 basis points, if the associated enterprise has a credit rating between C and D, or its equivalent. v. 425 basis points, if the credit rating of the associated enterprise is unavailable and the total loan amount advanced to the associated enterprise, including loans to all associated enterprises in Indian Rupees, does not exceed ₹100 crore as of 31st March of the relevant previous year.
5	Advancing of Intragroup loans (Denominated in Foreign Currency)	<p>The interest rate for the eligible international transaction must be no less than the reference rate of the relevant foreign currency as of 30th September of the relevant previous year, plus the following:</p> <ul style="list-style-type: none"> a) If the total loan advanced to the associated enterprise, including loans to all associated enterprises, does not exceed ₹250 crore as on 31st March of the relevant previous year: <ul style="list-style-type: none"> i. 150 basis points, where the associated enterprise has a credit rating of AAA, AA+, AA, AA-, A+, A, A- or equivalent. ii. 300 basis points, where the associated enterprise has a credit rating of BBB+, BBB, BBB- or equivalent. iii. 400 basis points, where the associated enterprise has a credit rating of BB+, BB, BB-, B+, B, B-, C+, C, C-, D or equivalent, or where the credit rating is unavailable. b) If the total loan advanced to the associated enterprise, including loans to all associated enterprises, exceeds ₹250 crore as on 31st March of the relevant previous year: <ul style="list-style-type: none"> i. 150 basis points, where the associated enterprise has a credit rating of AAA, AA+, AA, AA-, A+, A, A- or equivalent. ii. 300 basis points, where the associated enterprise has a credit rating of BBB+, BBB, BBB- or equivalent. iii. 450 basis points, where the associated enterprise has a credit rating of BB+, BB, BB-, B+, B, B- or equivalent. iv. 600 basis points, where the associated enterprise has a credit rating of C+, C, C-, D or equivalent, or where the credit rating is unavailable.

6	Providing Corporate guarantee	The commission or fee applicable to the eligible international transaction must be at a rate not less than 1% p.a on the amount guaranteed.
7	Provision of contract research and development services wholly or partly relating to software development	The operating profit margin declared by the eligible assessee from the eligible international transaction, in relation to the operating expenses incurred, must be at least 24% , provided that the value of the international transaction does not exceed 300 crore .
8	Provision of contract research and development services wholly or partly relating to generic pharmaceutical drugs	The operating profit margin declared by the eligible assessee from the eligible international transaction, in relation to the operating expenses incurred, must be at least 24% , provided that the value of the international transaction does not exceed 300 crore .
9	Manufacture and Export of core auto components	The operating profit margin declared by the eligible assessee from the eligible international transaction, in relation to operating expenses, must be at least 12% .
10	Manufacture and export of non-core auto components	The operating profit margin declared by the eligible assessee from the eligible international transaction, in relation to operating expenses, must be at least 8.5% .
11	Receipt of low value adding intragroup services	The total value of the international transaction, including a mark-up not exceeding 5% , must not exceed ₹10 Crore . Provided that the method of cost pooling, the exclusion of shareholder costs and duplicate costs from the cost pool, and the reasonableness of the allocation keys used for allocating costs to the assessee by the overseas associated enterprise, must be certified by an accountant.

Minimum Profit Margins and conditions for international Transactions



7. Advance Pricing Agreement- Section 92CC

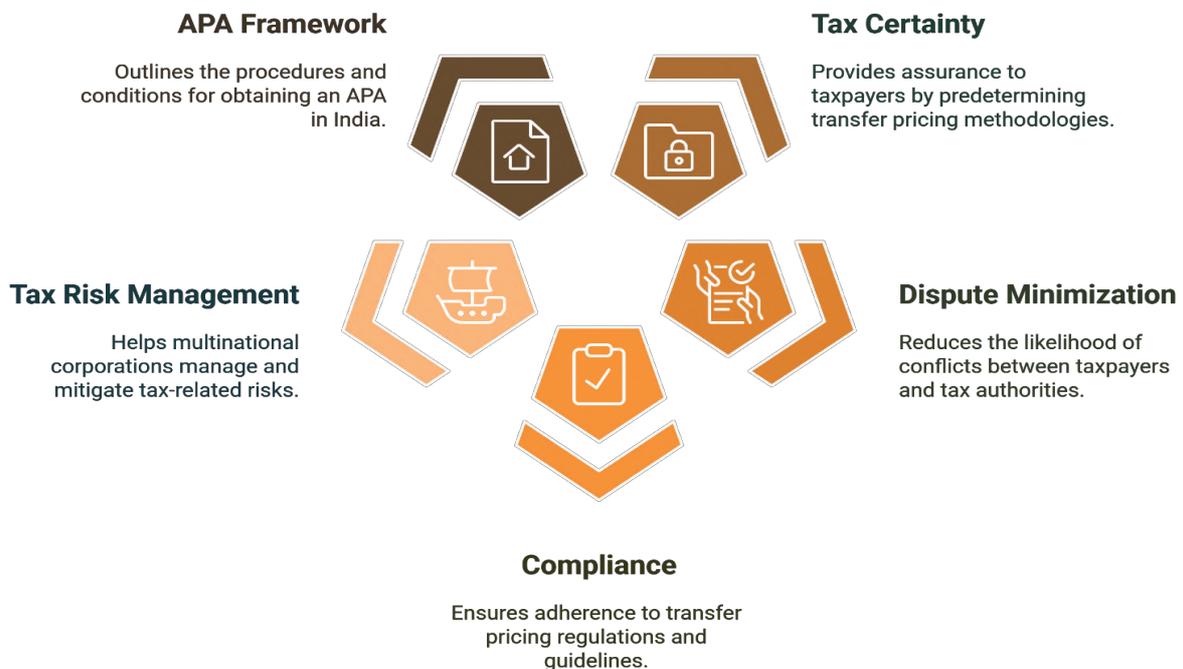
It is a formal agreement between a taxpayer and the tax authority to predetermine the transfer pricing methodology for international transactions involving related entities.

The primary objective of an APA is to provide tax certainty, minimize disputes, and ensure compliance with transfer pricing regulations, thereby reducing the risk of double taxation.

APAs can be unilateral, bilateral, or multilateral, depending on the involvement of one or more tax authorities.

This mechanism is particularly beneficial for multinational corporations as it helps manage tax risks and fosters a stable business environment. The APA scheme is further supported by Rule 10G to Rule 10T of the Income Tax Rules, 1962, which outlines the procedures and conditions for obtaining an APA in India.

Navigating Tax Certainty and Compliance with Advance Pricing Agreements

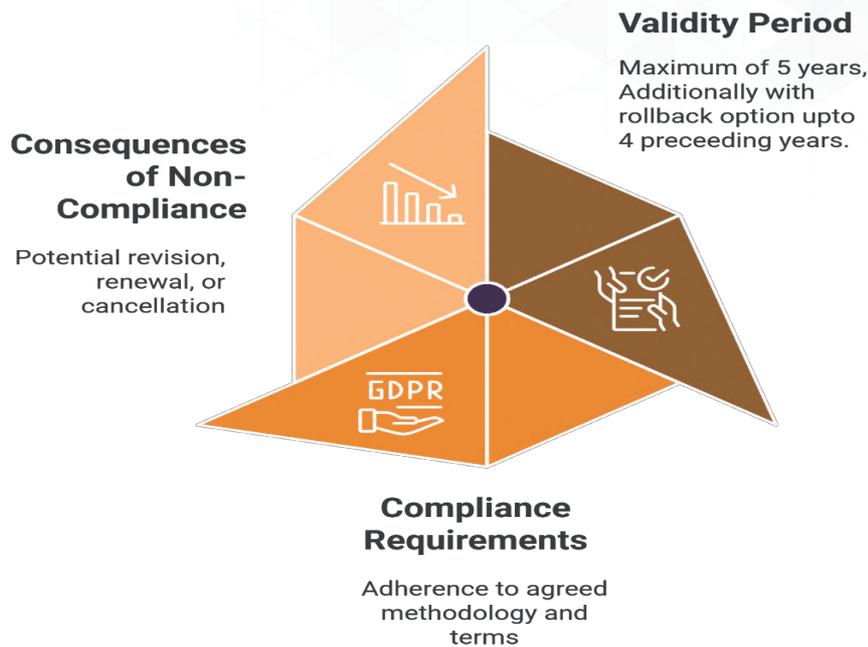


Terms and Validity of an APA

An Advance Pricing Agreement (APA) is valid for a maximum period of five years from the date of agreement. Additionally, under the rollback provisions, it can apply retrospectively for up to four preceding years, providing coverage for a total of nine years.

The agreement remains valid as long as the taxpayer complies with the agreed transfer pricing methodology and terms. However, non-compliance or significant changes in business conditions may lead to revision, renewal, or cancellation of the APA.

Understanding Advance Pricing Agreements



Types of Advance Pricing Agreements (APAs)

The OECD has outlined three main types of APAs based on the parties involved and the geographical scope of the agreement. These include unilateral, bilateral, and multilateral APAs.

Unilateral APA: A unilateral APA is an agreement between a taxpayer and the tax authority of one jurisdiction. Under this type of APA, the taxpayer and the tax authority agree on the transfer pricing methodology to be applied to the taxpayer's international transactions.

Bilateral APA: A bilateral APA involves an agreement between the taxpayer and tax authorities in two countries or jurisdictions. This type of agreement is typically used when a taxpayer's operations span across borders and involves multiple jurisdictions. A bilateral APA helps to ensure that the agreed transfer pricing methodology is consistent across both tax jurisdictions, thereby minimizing the risk of double taxation.

Multilateral APA: A multilateral APA extends the bilateral APA framework to include more than two tax jurisdictions. This type of agreement is particularly useful for large multinational enterprises with operations in several countries. In a multilateral APA, the transfer pricing methodology is agreed upon by all the tax authorities involved, offering the broadest level of certainty and reducing the risk of double taxation.

Navigating Global Taxation with Advance Pricing Agreements



Unilateral APA

An agreement between a taxpayer and a single jurisdiction's tax authority.



Bilateral APA

Involves agreements between a taxpayer and two jurisdictions' tax authorities.



Multilateral APA

Extends agreements to multiple jurisdictions, suitable for multinational enterprises.

Benefits of Advance Pricing Agreements

- Primary benefits of an APA are that it offers certainty regarding the transfer pricing methodology to be applied to a taxpayer's international transactions.
- Avoidance of Double Taxation occurs when two or more jurisdictions impose taxes on the same income. A bilateral or multilateral APA helps to eliminate this risk by ensuring that both tax authorities agree on the transfer pricing methodology and its application.
- APAs help prevent or resolve transfer pricing disputes by establishing pre-agreed terms between taxpayers and tax authorities. This reduces the likelihood of disagreements and ensures tax certainty. If disputes arise, the APA provides a structured framework for efficient resolution.
- With an APA, the agreed transfer pricing method reduces the likelihood of detailed scrutiny during tax audits. Tax authorities typically do not reassess the pre-approved methodology. This minimizes the risk of post-audit transfer pricing adjustments.
- APAs provide businesses with operational flexibility by ensuring compliance with transfer pricing regulations. A clear methodology allows companies to focus on core operations instead of tax-related issues. This reduces time and resource burdens on managing tax compliance.

Advantages of Advance pricing Agreements



Procedure for Obtaining an Advance Pricing Agreement - Section 92CC

The process for obtaining an APA involves several steps, including pre-filing consultation, application submission, negotiation, and finalization. The following are the key steps along with the relevant forms to be filed:

I. Pre-filing Consultation (Optional) – Form 3CEC

The taxpayer may request a pre-filing consultation with the Central Board of Direct Taxes (CBDT) to discuss the scope and terms of the APA. This step helps in assessing the feasibility of the APA and understanding the required documentation.

II. Filing of APA Application – Form 3CED

The taxpayer formally applies for an APA using Form 3CED, specifying details of the international transaction, proposed transfer pricing methodology, and supporting documents. The application fee depends on the transaction value:

- i. Up to ₹100 crore: ₹10 lakh
- ii. ₹100-200 crore: ₹15 lakh
- iii. Above ₹200 crore: ₹20 lakh

III. Evaluation and Negotiation

The tax authorities review the application, conduct discussions, and may request additional information or site visits. Negotiations take place between the taxpayer and authorities to finalize the transfer pricing methodology.

IV. Draft Agreement and Finalization

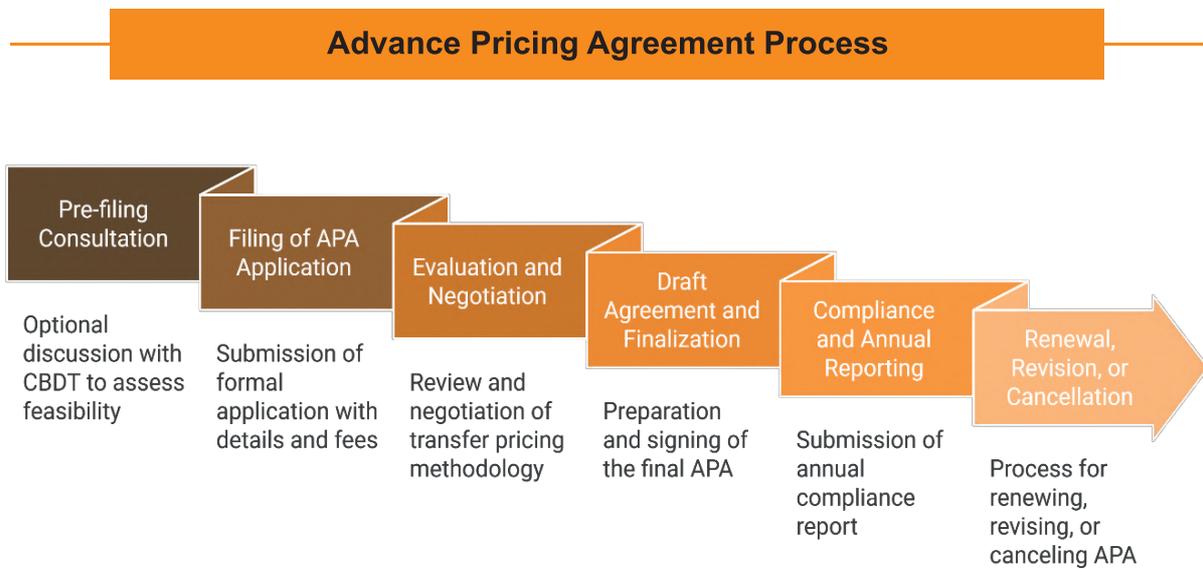
Once both parties agree on the terms, a draft APA is prepared and reviewed. The final APA is signed, outlining the agreed pricing methodology and compliance terms.

V. Compliance and Annual Reporting – Form 3CEF

After the APA is in effect, the taxpayer must submit an annual compliance report in Form 3CEF to demonstrate adherence to the agreed terms.

VI. Renewal, Revision, or Cancellation - Section 92CD

The APA may be renewed upon expiry or revised in case of significant business changes. If the taxpayer fails to comply, the APA may be cancelled by tax authorities.



8. Transfer Pricing Documentation

Transfer Pricing Documentation refers to the collection and organization of records and materials that demonstrate how a multinational enterprise (MNE) sets its transfer prices for transactions between associated enterprises. It serves as evidence that the transfer pricing policies adopted by a taxpayer are consistent with the arm's length principle, which mandates that the prices charged in cross-border intercompany transactions should be comparable to the prices charged between unrelated parties in similar circumstances. The primary objective of transfer pricing documentation is to ensure compliance with the local transfer pricing regulations and to mitigate the risk of disputes with tax authorities.

Effective transfer pricing documentation plays a critical role in defending a taxpayer's transfer pricing practices during tax audits and providing transparency to tax authorities. It is an essential part of the transfer pricing compliance framework that enables businesses to avoid penalties, fines, and adjustments.

Key Components of Transfer Pricing Documentation and related filings with IT Department

Transfer Pricing Documentation generally consists of three main parts that provide a comprehensive view of the MNE's global transfer pricing policies and practices:

Local File (TP Study Report): The Local File documents all relevant transfer pricing information for each country where an MNE operates. It is tailored to the local operations of the MNE and should include:

- A detailed description of the taxpayer's organizational structure and business operations.
- The financial information necessary to analyze the MNE's financial performance, including financial statements and information on intercompany transactions.
- The analysis of the transfer pricing methods used, including the comparability analysis and selection of the transfer pricing method.
- A detailed description of the intercompany transactions, including terms and conditions.
- The local file shall be maintained only if the **aggregate value of international transactions exceeds INR 1 crore** and shall be retained for a period of **8 years from the end of the relevant assessment year**.

Master File: The Master File provides an overarching view of the MNE's global transfer pricing practices and is designed to give tax authorities a comprehensive understanding of the global operations and the transfer pricing policies of the MNE. It should include:

- The organizational structure of the MNE, including a chart showing the corporate structure of the group.
- A description of the MNE's business model, including global supply chain, financial activities, and any intangible assets (such as intellectual property).
- The financial and tax positions of the MNE, including consolidated financial statements and a summary of the group's transfer pricing policies.
- Information on the MNE's financing arrangements and internal allocation of risks and functions.

Conditions for Applicability of Master File

1. Consolidated Group revenue exceeds **INR 500 Crore**
- &
2. Indian entity conditions - Aggregate value of international transactions **exceeds 50 Crores** or purchase, sale, transfer, lease or use of **intangible property** during the accounting year, as per the books of account, **exceeds 10 crore** rupees.

If both conditions 1 & 2 are satisfied, we have to file **Form 3CEAA (Part A and Part B)** and **Form 3CEAB** (if two or more group companies are in India) as per the due dates mentioned above.

If Indian entity conditions are not satisfied and Consolidated group revenue **exceeds 500 Crores**, in that case, we have to file Form 3CEAB (if two or more group companies are in India) and **Part A of Form 3CEAA**.

Form 3CEAB will be filed only when the group has two or more entities in India. One entity will be designated to file **Form 3CEAA**.

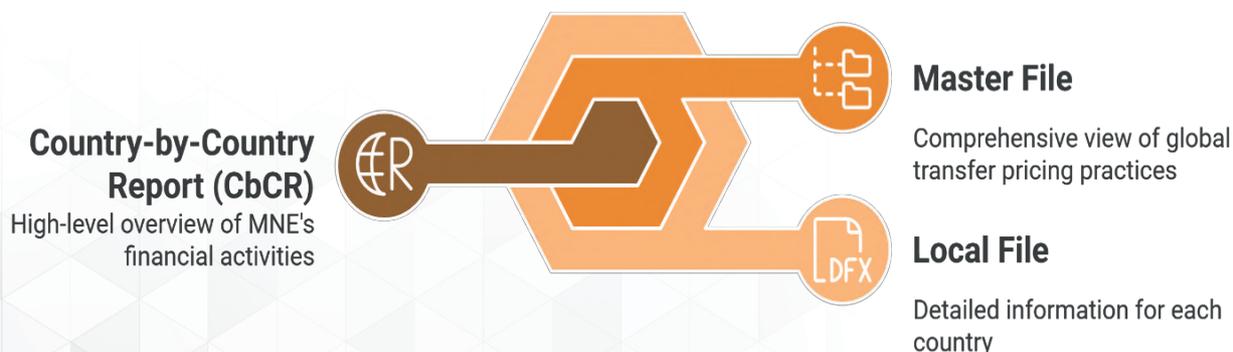
Country-by-Country Report (CbCR): The Country-by-Country Report provides a high-level overview of the financial activities of the MNE group. This report is required for large MNEs (those with a global consolidated revenue of **€750 million (INR 6,400 Crores or more)**). The CbCR includes:

- Information on the global allocation of income, taxes paid, and business activities for each tax jurisdiction in which the MNE operates.
- The number of employees and the value of assets held by the MNE in each country.
- This report helps tax authorities perform a risk assessment of transfer pricing practices, identify any instances of profit shifting, and determine where the profits of an MNE are being reported.

Form 3CEAC - Notification of country by country report - Due date is 31 Oct 2024 (Actual due date is within 10 months from the end of the reporting accounting year of the parent entity).

For e.g. If parent entity is situated in USA and its accounting year Jan to Dec, in this instance, Indian group entity has to file form 3CEAC within 10 months i.e. 31 Oct. 2024)

Transfer pricing Documentation Structure



9. Secondary Adjustment

"Excess money" refers to the difference between the arm's length price determined through a primary adjustment and the price at which the international transaction was actually conducted.

"Primary adjustment" refers to the determination of the transfer price in accordance with the arm's length principle, which results in an increase in total income or a reduction in loss for the assessee.

"Secondary adjustment" involves an adjustment in the books of accounts of the assessee and its associated enterprise to align the actual allocation of profits with the transfer price determined through the primary adjustment. This ensures consistency and eliminates any imbalance between the cash account and actual profit.

Conditions for Secondary Adjustment - Secondary adjustment applies in the following cases:

- Made by the assessee suo motu in their return of income,
- Accepted by the assessee after being made by the Assessing Officer;
- Determined by an advance pricing agreement under section 92CC of the Income Tax Act
- Made in accordance with the safe harbour rules under section 92CB
- Resulting from the resolution of an assessment through the mutual agreement procedure under agreements signed under sections 90 or 90A for the avoidance of double taxation.

Exceptions to Secondary Adjustment - Secondary adjustment **does not** apply if:

- The primary adjustment in any previous year **does not exceed ₹1 crore**; or
- The primary adjustment relates to an assessment year beginning **on or before April 1, 2016**.

Difference between primary adjustment and secondary adjustment

Particulars	Primary Adjustment	Secondary Adjustment
Definition	A primary adjustment refers to the first adjustment made to a company's transfer price to align it with the arm's length price (ALP)	A secondary adjustment is an additional adjustment made after a primary adjustment, reflecting the actual movement of funds between the associated enterprises. It treats the difference as a deemed loan if the excess money (from primary adjustment) is not repatriated.
Purpose	To correct the reported income in line with the arm's length principle.	To ensure the economic alignment of actual cash flows with the adjusted profits.
Example	<ul style="list-style-type: none"> • An Indian subsidiary sells goods to its foreign parent company for ₹80 lakhs. • Upon review, the tax authority determines that the arm's length price should have been ₹100 lakhs. • A primary adjustment of ₹20 lakh is made, increasing the Indian company's taxable income by ₹20 lakhs. 	<ul style="list-style-type: none"> • The Indian company makes a primary adjustment of ₹20 lakhs. But the foreign parent company does not repatriate the ₹20 lakhs within the allowed time. • Then, as per secondary adjustment rules, the ₹20 lakhs are deemed to be an advance or loan from the Indian entity to the foreign parent. • As a result, notional interest income may be added to the Indian company's taxable income.

10. Thin capitalisation rules

Applicability

If an Indian company or a permanent establishment of a foreign company in India (the borrower) incurs expenditure in the form of interest or similar payments exceeding ₹1 crore, which is deductible under the head "Profits and gains of business or profession," in respect of debt issued by a non-resident associated enterprise, the interest will not be deductible to the extent it arises from excess interest, as specified below.

Determine the deductibility of interest payments for tax purposes



Deemed Association of Debt

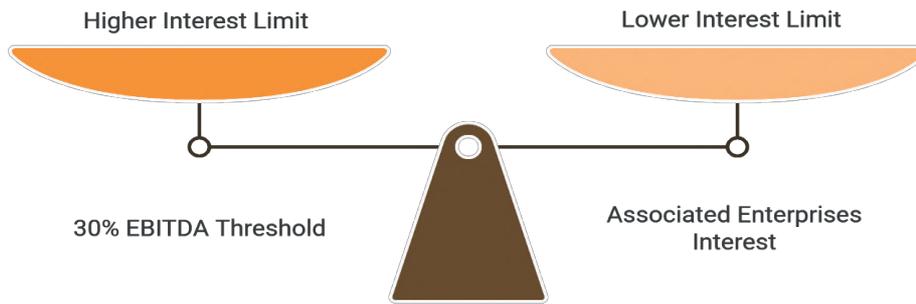
If the debt is issued by a lender who is not an associated enterprise, but an associated enterprise provides either an implicit or explicit guarantee to the lender or deposits a corresponding amount of funds with the lender, such debt shall be treated as if issued by an associated enterprise.

Debt Treatment Convergence



Excess Interest Definition

For the purposes of this section, excess interest refers to the total interest paid or payable that exceeds 30% of the borrower's earnings before interest, taxes, depreciation, and amortization (EBITDA) for the previous year, or the interest paid or payable to associated enterprises for that year, whichever is lesser.



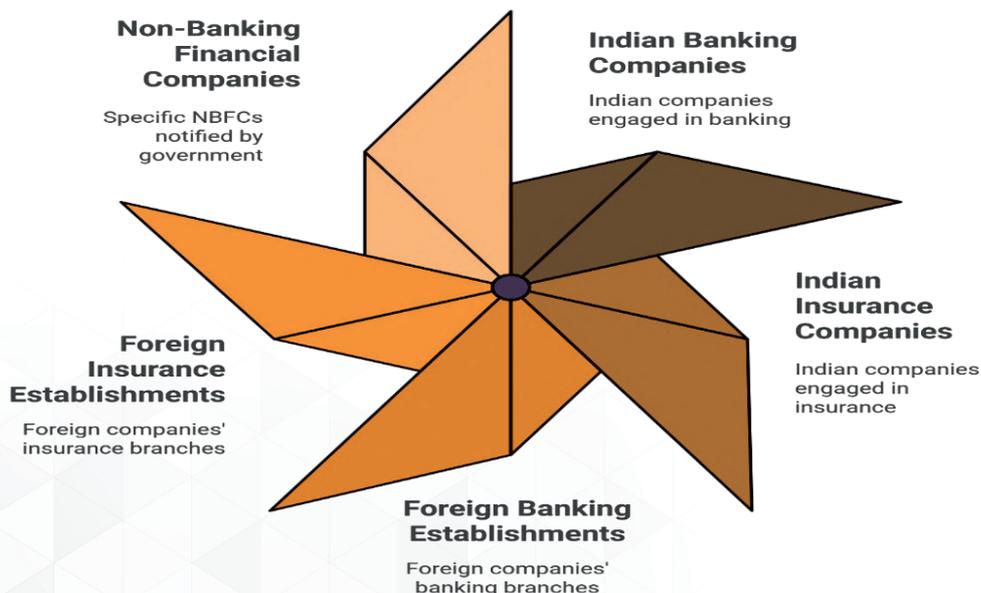
Balancing Interest Limits for Compliance

Exceptions

The above provisions do not apply to:

- An Indian company or a permanent establishment of a foreign company engaged in the business of banking or insurance; or
- Such classes of non-banking financial companies as may be notified by the Central Government in the Official Gazette.

Exceptions to Provisions Overview

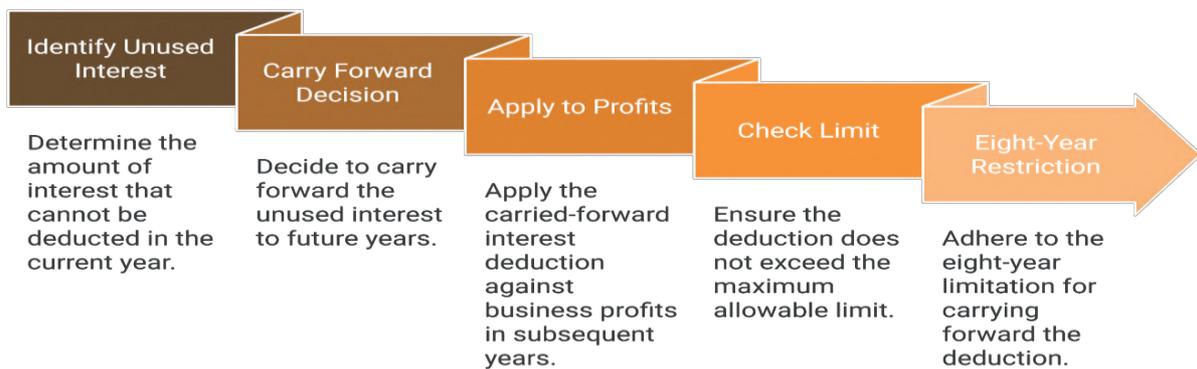


Carry Forward of Unused Interest Deduction

If the interest expenditure cannot be fully deducted in the current assessment year, the remaining amount may be carried forward to subsequent assessment years. It will be allowed as a deduction against the profits and gains of any business or profession carried on by the taxpayer, subject to the maximum allowable interest expenditure limit.

However, interest expenditure may not be carried forward for more than 8 assessment years following the year in which the excess interest was first computed.

Carry Forward of Unused Interest Deduction



11. Important Due dates for Transfer Pricing

Form No	Threshold	Due date	Penalty/Remarks
TP Documentation (Rule 10D)	One Crore	On or before issue of Form 3CEB	2% of value of International Transactions (u/s 271AA)
3CEB	No Limit	31 st October of relevant AY	<ul style="list-style-type: none"> • Failure to furnish information/ documents during assessment – 2% of value of IT (271G). • Adjustment to taxpayers Income during assessment – 50% and 200% of tax on adjustment (270A). • Failure to furnish accountants report – INR 1,00,000
3CEAB	Filed only when Form 3CEAA is applicable.	31 st October of relevant AY	This form will be filed only when the group has two or more entities in India. One entity will be designated to file Form 3CEAA.
3CEAC	Consolidated Group revenue > INR 6,400 Crore.	31 st October of relevant AY	<p>(Actual due date is within 10 months from the end of the reporting accounting year of the parent entity).</p> <p>For eg. If parent entity is situated in USA and its accounting year Jan to Dec, in this instance, Indian group entity has to file form 3CEAC within 10 months i.e. 31 Oct. 2024)</p>
3CEAA	<ul style="list-style-type: none"> • Consolidated Group revenue > INR 500 Crore. & • Indian entity conditions - Aggregate value of international transactions > 50 Crores or purchase, sale, transfer, lease or use of intangible property during the accounting year, as per the books of account, > 10 crores rupees. 	30 th November of relevant AY	<ul style="list-style-type: none"> • If both conditions 1 & 2 are satisfied, we have to file Form 3CEAA (Part A and Part B). • If Indian entity conditions are not satisfied and Consolidated group revenue exceeds 500 Crores, in that case, we have to file Part A of Form 3CEAA.
3CEFA	As prescribed in Safe harbor rules	30 th Nov of relevant AY	On or before the due date specified in 139(1) for furnishing the ROI under rule 10TE.
3CEC – Pre-filing consultation	No Specific due date but before filing APA in Form 3CED		On receipt of the request in Form No. 3CEC, the team shall hold pre-filing consultation with the person referred to in rule 10G

3CED – APA Application	<ul style="list-style-type: none"> • Transactions which are of a continuing nature from dealings that are already occurring - before the first day of the previous year relevant to the first assessment year for which the application is made. • Remaining Transactions - before undertaking the transaction.
3CEDA – Roll back Application	On or before filing the Form 3CED
3CEE – APA withdrawal Form	At any time before the finalization of the terms of the APA agreement.
Preliminary processing of APA application.	<p>If any defect is noticed in the APA application in Form No. 3CED or if any relevant document is not attached thereto or the application is not in accordance with understanding reached in any pre-filing consultation referred to in rule 10H.</p> <ul style="list-style-type: none"> • The Director General of Income-tax (International Taxation) (for unilateral agreement) Competent authority in India (for bilateral or multilateral agreement) shall serve a deficiency letter on the applicant before the expiry of one month from the date of receipt of the application. • The applicant shall remove the deficiency or modify the application within a period of fifteen days from the date of service of the deficiency letter or within such further period which, on an application made in this behalf, may be extended, so however, that the total period of removal of deficiency or modification does not exceed thirty days.
Amendments to APA Application	An applicant may request in writing for an amendment to an application at any stage, before the finalization of the terms of the agreement.
3CEF - ACR	Within thirty days of the due date of filing the income-tax return for that year, or within ninety days of entering into an agreement, whichever is later.
Effect to the APA Agreement	Such applicant shall furnish, within a period of three months from the end of the month in which the said agreement was entered into, a modified return in accordance with and limited to the agreement.

Key Tax Form Deadlines and Penalties

On or before issue of Form 3CEB

TP Documentation
Penalty

31st October of relevant AY

Form 3CEAC Filing
Deadline

30th November of relevant AY

Form 3CEAA Filing
Deadline



31st October of relevant AY

Form 3CEB Filing
Deadline

31st October of relevant AY

Form 3CEAB Filing
Deadline

30th November of relevant AY

Form 3CEFA Filing
Deadline

12. Transfer Pricing Documentation in UAE

Transfer pricing documentation refers to the records and reports that multinational companies (MNCs) must maintain and submit to demonstrate that their intercompany transactions are consistent with the arm's length principle. This principle is critical to ensure that companies are not mispricing goods, services, or intellectual property (IP) in a way that manipulates taxable profits, particularly in low-tax jurisdictions.

The United Arab Emirates (UAE) introduced its transfer pricing framework as part of its broader tax reform strategy to comply with international tax standards. The introduction of this framework aims to ensure that companies are paying taxes based on fair transfer prices and that the UAE's tax system is not used for aggressive tax avoidance strategies. The UAE's approach to transfer pricing documentation was shaped by international standards, particularly the OECD Transfer Pricing Guidelines, which provide a detailed framework for ensuring transparency in tax filings.

Historical Context of Transfer Pricing in the UAE

Historically, the UAE did not have a comprehensive transfer pricing regime. However, over time, as the country integrated more deeply into the global economy, it became essential for the UAE to implement a structured transfer pricing policy. In response to the global tax environment, especially the OECD's Base Erosion and Profit Shifting (BEPS) initiative, the UAE introduced its own set of regulations to govern transfer pricing in 2019.

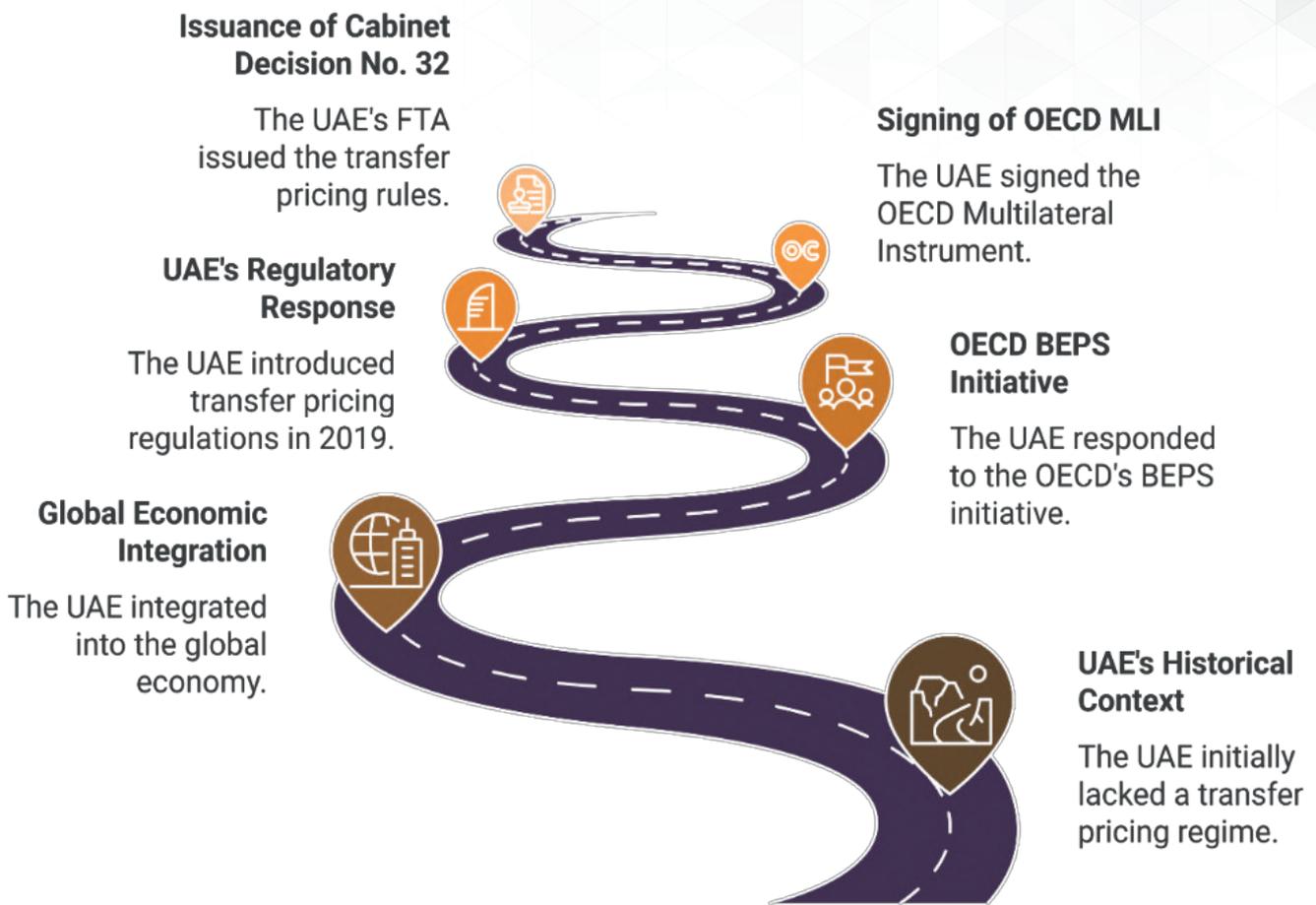
The introduction of these regulations came after the UAE signed up to the OECD Multilateral Instrument (MLI), which is an international treaty aimed at modifying existing tax treaties to align with OECD recommendations. In this context, the UAE's Federal Tax Authority (FTA) issued Cabinet Decision No. 32 of 2019, which set out the transfer pricing rules for businesses operating within the UAE.

The decision was aimed at promoting fairness in the tax system by preventing businesses from engaging in aggressive tax planning schemes. It also served to demonstrate the UAE's commitment to adhering to global tax standards, making the UAE a more transparent and accountable jurisdiction for multinational enterprises.

Unpacking UAE's Transfer pricing Framework



Evolution of Transfer pricing in the UAE



Transfer Pricing Documentation Requirements in UAE

Under the UAE transfer pricing regulations, multinational enterprises (MNEs) must maintain and submit detailed documentation to demonstrate that their intercompany transactions are priced at arm's length. These documents are crucial for tax authorities to assess whether the pricing of intercompany transactions reflects fair market value.

The UAE Transfer Pricing Guidelines prescribe specific documentation requirements to ensure that businesses comply with the OECD's BEPS Action 13, which aims to increase transparency in the tax systems of jurisdictions and curb tax avoidance through transfer pricing manipulation. The primary objective of these regulations is to ensure that companies are not shifting profits to low or no-tax jurisdictions in a way that reduces their overall tax liability.

Transfer pricing Compliance in UAE



Identify Intercompany Transactions

Recognizing and cataloging transactions between related entities

Compiling necessary documents to support pricing

Prepare Documentation



Submit to Tax Authorities

Providing the prepared documentation to relevant tax bodies

Tax authorities evaluate the submitted documentation for adherence to regulations

Assess Compliance



Ensure Arm's Length Pricing

Verifying that intercompany transactions are priced fairly and transparently

Key Aspects of UAE Transfer Pricing Documentation

A. Master File:

The Master File provides a high-level overview of the MNC's global operations and its intercompany arrangements. The purpose of the Master File is to give tax authorities a clear understanding of the business structure, financial standing, and operational activities of the multinational group. This allows authorities to evaluate whether the MNC's transfer pricing policies align with the arm's length principle.

Contents of the Master File:

Organizational Structure: A chart detailing the group's ownership structure and business model, showing how the group's entities are interrelated.

Financial Statements: A consolidated set of financial statements that includes key figures such as revenue, profits, and taxes paid, helping authorities assess the overall scale of the MNC's operations.

Business Description: An explanation of the group's core business activities, including the nature of the group's products and services and the geographic markets in which it operates.

Financial and Tax Arrangements: An overview of the group’s intercompany financial arrangements, including financing, guarantees, and any related-party transactions involving intellectual property or intangible assets.

Transfer Pricing Policies: A global description of the transfer pricing policies applied by the MNC across all jurisdictions, including the methods used for pricing intercompany transactions (such as the Comparable Uncontrolled Price (CUP) method, Resale Price Method (RPM), and others).

Comprehensive Overview of master File for multinational Corporations



B. Local File

The Local File is a more detailed document that focuses on the individual operations of an MNC’s local subsidiaries, in this case, those based in the UAE. It provides tax authorities with specific information about local intercompany transactions, helping them verify whether the pricing of these transactions complies with the arm’s length standard.

Contents of the Local File:

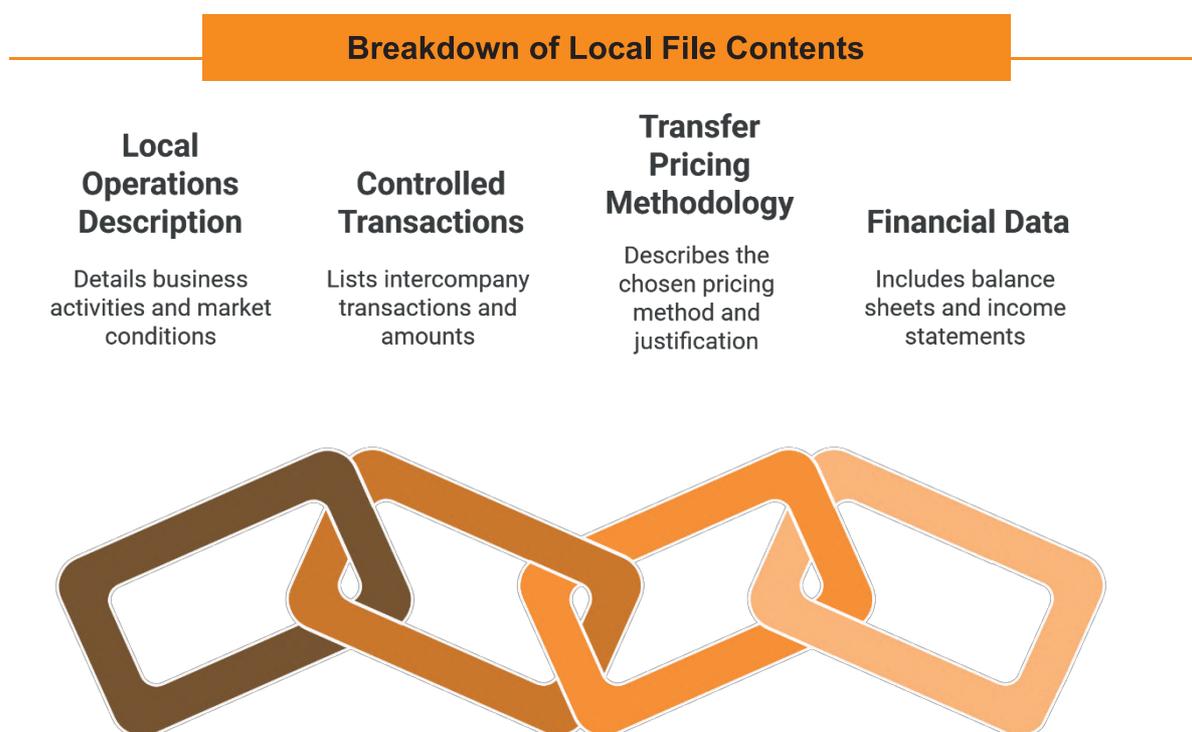
Local Operations Description: Detailed information about the local business activities, the products or services sold, and the market conditions.

Controlled Transactions: A list of the intercompany transactions conducted between the UAE entity and its associated enterprises, specifying the nature of the transactions (e.g., sale of goods, provision of services, intellectual property licensing) and the amounts involved.

Transfer Pricing Methodology: A description of the specific transfer pricing method employed to determine the prices of intercompany transactions, with justifications for why that method was selected. This could include methods like Cost Plus, Resale Price, or the Profit Split method.

Financial Data: The Local File includes detailed financial data specific to the UAE entity, such as balance sheets, income statements, and details about the allocation of profits among entities.

The Local File allows tax authorities to assess the appropriateness of the transfer pricing methods used by the local subsidiary and whether the pricing of transactions with associated entities is in line with the arm's length principle.



C. Country-by-Country Reporting (CbCR)

The Country-by-Country Report (CbCR) provides a comprehensive breakdown of the MNC's tax position on a global scale, including its revenue, profits, taxes paid, and other financial data for each jurisdiction in which it operates. The CbCR aims to increase transparency and allow tax authorities to assess whether profits are being properly allocated to jurisdictions where economic activities take place.

Contents of the CbCR:

Revenue: A breakdown of revenue by jurisdiction.

Profit Before Tax: The total profit of the MNC before tax for each jurisdiction.

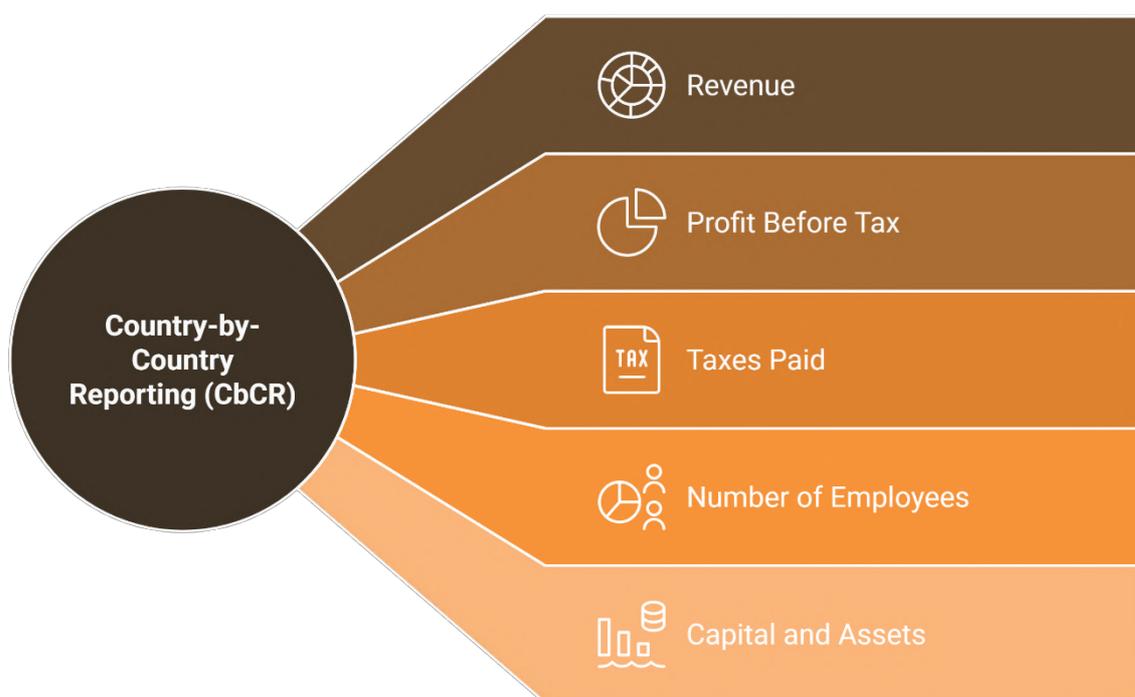
Taxes Paid: The total taxes paid by the MNC in each jurisdiction, including corporate income tax and other relevant taxes.

Number of Employees: The number of employees employed in each jurisdiction.

Capital and Assets: A breakdown of the capital and assets held in each jurisdiction.

The CbCR is generally required for MNCs with consolidated revenue above a specified threshold. This report helps authorities determine if profits are being appropriately allocated to jurisdictions that reflect where the underlying economic activity is taking place.

Unveiling the Dimensions of CbCR



D. Transfer Pricing Documentation Filing Requirements:

In the UAE, MNCs are required to submit their transfer pricing documentation upon request by the UAE Federal Tax Authority (FTA). The documentation must be provided in a timely manner, typically within 30 days of receiving a request from the FTA. Companies must submit the documentation in the following circumstances:

Upon Request: The FTA may request transfer pricing documentation to review the pricing of intercompany transactions.

Failure to Submit: If a company fails to submit its documentation or does not meet the required standards, the FTA may impose penalties or initiate a tax audit to investigate the matter further.

E. Applicable limits for Maintaining Master file, Local file and CbCR report

➤ Master file and Local file

A taxable person must prepare and maintain both a Master File (MF) and a Local File (LF) if they meet **either** of the following criteria during the relevant tax period:

- The taxable person is a constituent entity of a Multinational Enterprises (MNE) Group with a total consolidated group revenue of AED 3.15 billion or more in the relevant tax period.
- The taxable person's revenue is AED 200 million or more in the relevant tax period.

➤ CbCR report

- The UAE's Country-by-Country Reporting (CbCR) regulations apply to multinational enterprise (MNE) groups with annual consolidated revenues exceeding **AED 3.15 billion (USD 858 million)** for fiscal years starting on or after 1 January 2019.
- The CbCR report must be filed within 12 months after the end of the MNE group's fiscal year.
- Additionally, the UAE tax-resident Ultimate Parent Entity (UPE) must notify the UAE Ministry of Finance (MoF) by the last day of the group's fiscal year, confirming its responsibility for submitting the CbC report and identifying the UAE Constituent Entities.

Determine the reporting requirements for MNEs based on revenue thresholds



Master File/Local File

Requires reporting if group revenue is AED 3.15 billion or consolidated revenue is AED 200 million



CbCR Report

Requires reporting if group revenue is AED 3.15 billion

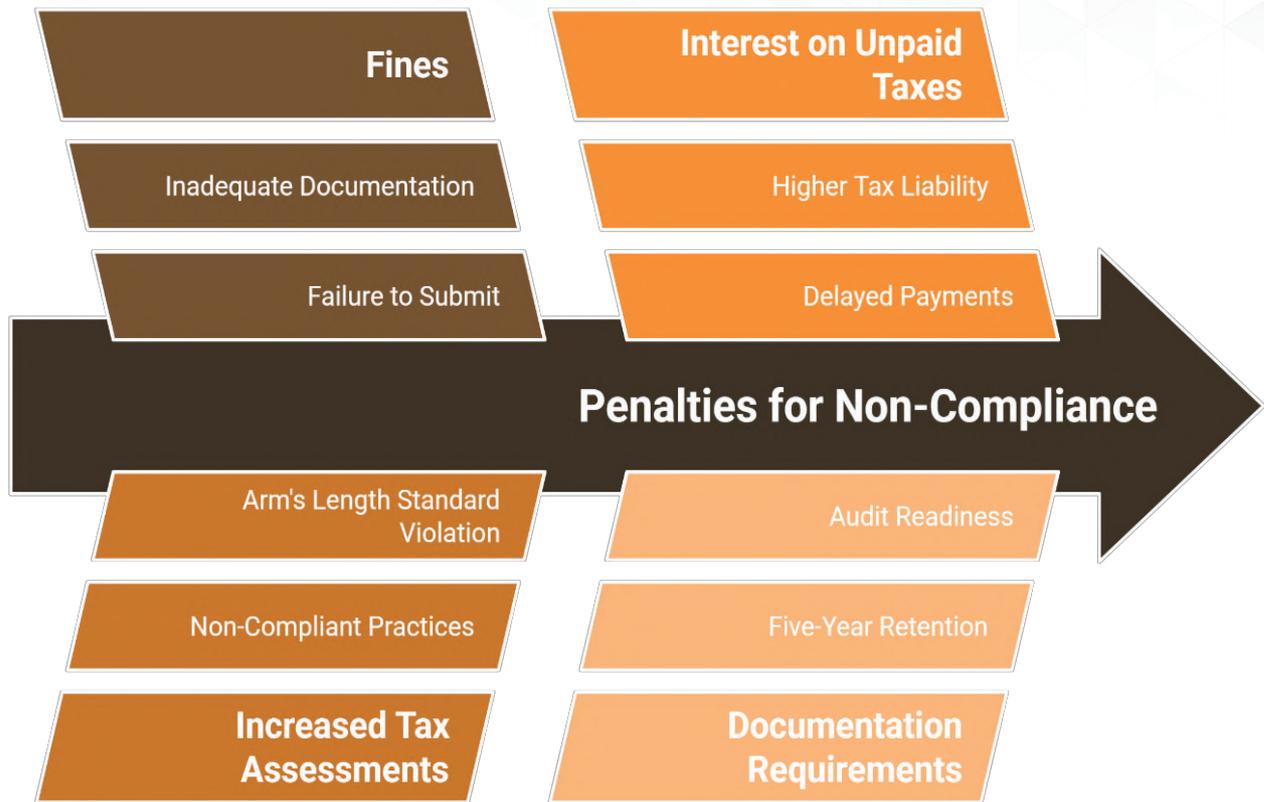
F. Penalties for Non-Compliance:

The UAE has strict penalties in place for businesses that fail to maintain or submit adequate transfer pricing documentation. These penalties can include:

- Penalties ranging from **AED 10,000 to AED 10,00,000.**

Companies must also retain their transfer pricing documentation for a minimum of 7 years from the end of the financial year in which the transaction occurred. This ensures that the records remain available for inspection in case of audits or tax authority inquiries.

Understanding Transfer Pricing Non-compliance Penalties



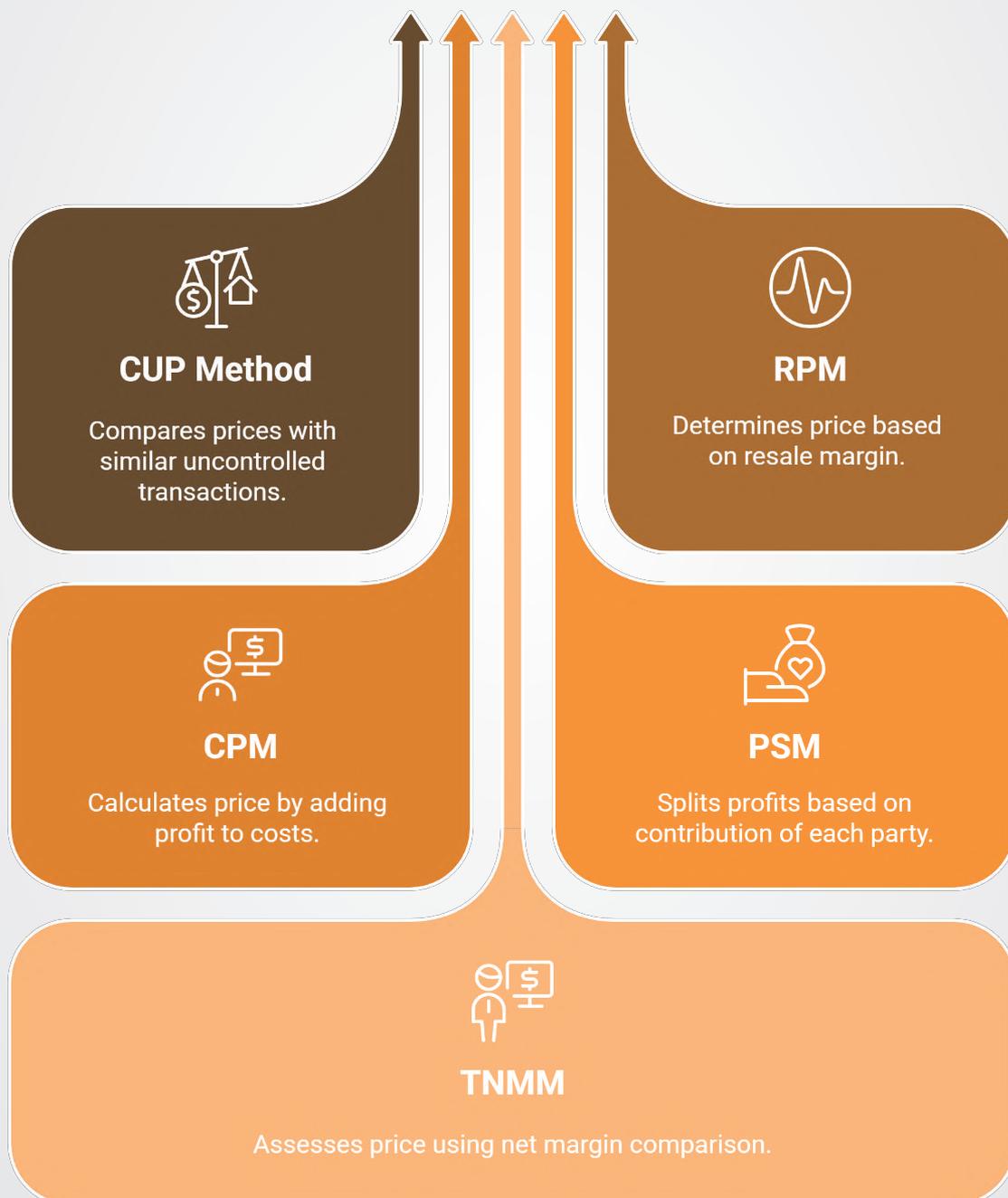
Transfer Pricing Methods in UAE

As part of the OECD guidelines, the UAE has adopted the Five Transfer Pricing Methods to determine arm's length pricing for intercompany transactions. These methods are:

1. **Comparable Uncontrolled Price (CUP) Method.**
2. **Resale Price Method (RPM).**
3. **Cost Plus Method (CPM).**
4. **Profit Split Method (PSM).**
5. **Transactional Net Margin Method (TNMM).**

Each of these methods allows MNCs to demonstrate that the prices charged between associated enterprises are consistent with market conditions, ensuring that profits are properly allocated among different jurisdictions.

Harmonizing Intercompany Pricing



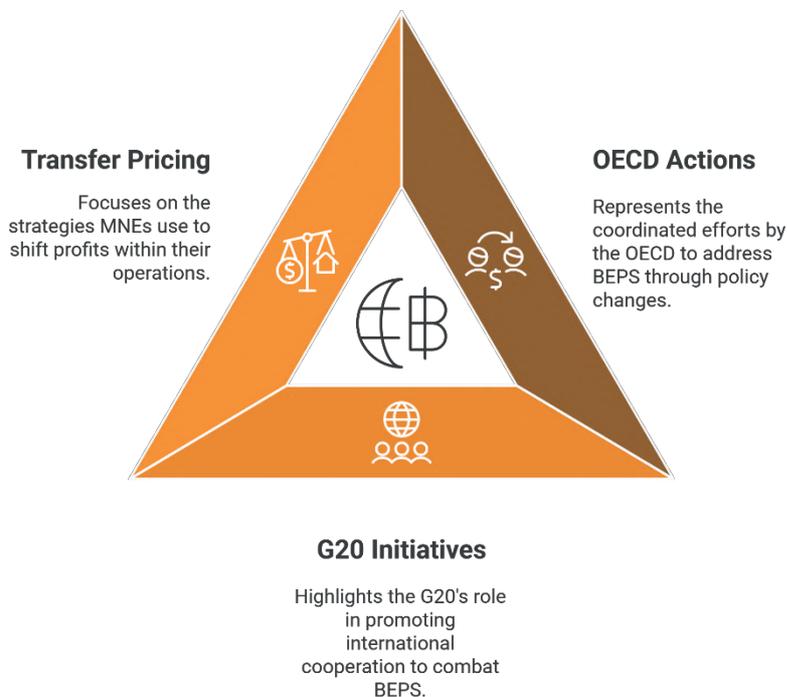
13. BEPS and Transfer Pricing: Addressing Global Tax Avoidance

Introduction to BEPS

Base Erosion and Profit Shifting (BEPS) refers to the strategies multinational enterprises (MNEs) use to shift profits from high-tax jurisdictions to low-tax or no-tax jurisdictions. These practices erode national tax bases and reduce government revenues, leading to global concerns over tax fairness.

To combat BEPS, the Organisation for Economic Co-operation and Development (OECD) and the G20 initiated the BEPS Action Plan in 2013, introducing 15 key actions designed to curb tax avoidance and ensure that taxation aligns with value creation. One of the most significant areas of focus is transfer pricing, as MNEs often manipulate intra-group transactions to shift profits.

Global Strategies to Combat Tax Evasion and Ensure Fairness



The Role of Transfer Pricing in BEPS

Transfer pricing refers to the pricing of transactions between related entities within an MNE. These transactions may include the sale of goods, licensing of intellectual property (IP), provision of services, and intercompany financing. BEPS concerns arise when transfer pricing is used to artificially allocate profits to low-tax jurisdictions.

Common Transfer Pricing Issues in BEPS

1. Profit Shifting through Intangibles

- MNEs often hold patents, trademarks, and other intellectual property (IP) in low-tax jurisdictions.
- They charge high royalty fees to subsidiaries in high-tax countries, reducing taxable profits in those countries.
- Example: A U.S. software company registers its patents in Ireland and charges its U.S. subsidiary high royalty fees, thereby shifting profits to the lower-tax Irish entity.

2. Artificial Allocation of Risks and Functions

- Some MNEs allocate business risks (e.g., financial, R&D) to subsidiaries in low-tax jurisdictions, even when the real decision-making occurs elsewhere.
- The result is profiting concentration in tax-favourable jurisdictions without actual economic substance.

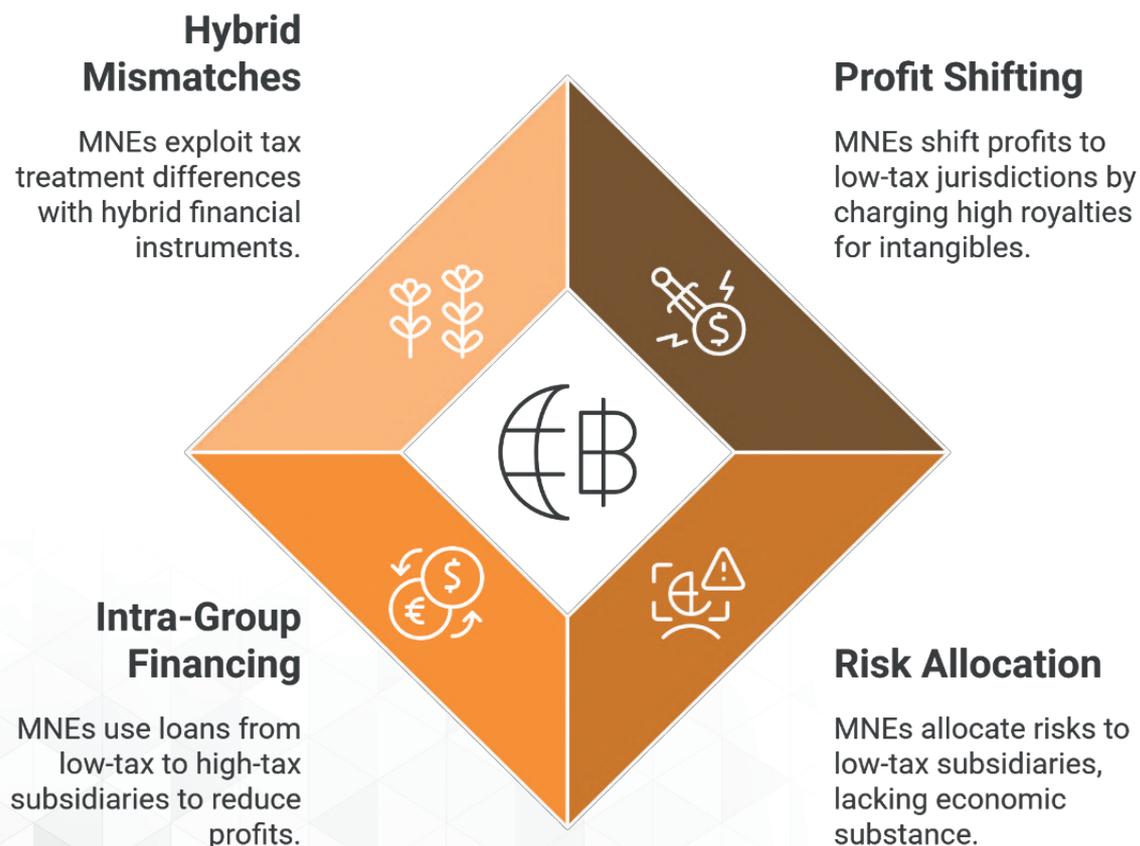
3. Use of Intra-Group Financing

- MNEs create financing structures where subsidiaries in high-tax countries borrow from related entities in low-tax jurisdictions.
- These loans generate high interest expenses in high-tax jurisdictions, reducing taxable profits.
- Meanwhile, the lending subsidiary earns tax-free or low-taxed interest income.

4. Hybrid Mismatch Arrangements

- Exploiting differences in tax treatment of financial instruments or entities across jurisdictions.
- Example: A company issuing a hybrid instrument that is debt in one country (allowing interest deductions) and equity in another (where payments are tax-exempt).

— Navigating BEPS: Key Transfer Pricing challenges for MNEs —



OECD BEPS Actions Targeting Transfer Pricing

The BEPS Project directly addresses transfer pricing concerns through several key actions:

1. Action 8-10: Aligning Transfer Pricing with Value Creation

- Focuses on ensuring that profits are taxed where economic activities and value creation occur.
- Introduces the "substance over form" principle—businesses must have real functions, risks, and assets in a jurisdiction to justify profit allocation.
- Strengthens rules on the allocation of intangibles, ensuring that only entities actively contributing to value creation benefit from IP-related income.

2. Action 13: Transfer Pricing Documentation & Country-by-Country Reporting (CbCR)

- Introduces a standardized three-tiered transfer pricing documentation framework:
 - **Master File:** Overview of the MNE's business operations and transfer pricing policies.
 - **Local File:** Detailed transactional data for each jurisdiction, including functional and risk analyses.
 - **Country-by-Country Report (CbCR):** MNEs with revenues above €750 million must disclose financial and tax data by country.
- Enhances transparency and allows tax authorities to detect profit shifting and inconsistencies in tax reporting.

3. Action 4: Limiting Interest Deductions

- Prevents MNEs from using excessive debt financing to shift profits.
- Limits interest deductions to a percentage of Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) (e.g., 30% of EBITDA).

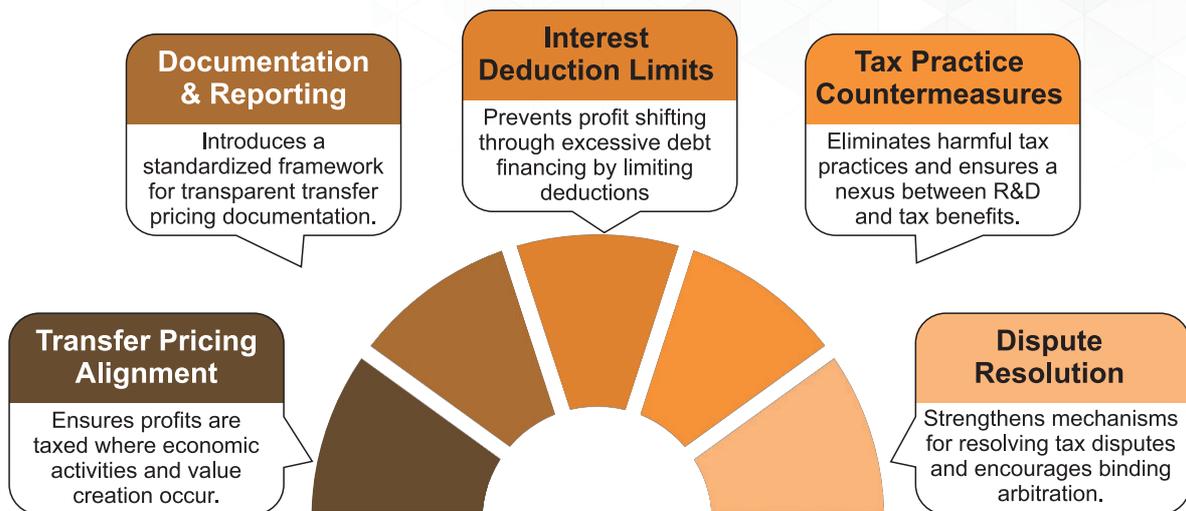
4. Action 5: Countering Harmful Tax Practices

- Focuses on eliminating preferential tax regimes that facilitate BEPS (e.g., patent box regimes with insufficient substance requirements).
- Introduces the "nexus approach" for IP taxation, requiring a direct connection between R&D activities and the jurisdiction providing tax benefits.

5. Action 14: Strengthening Dispute Resolution Mechanisms

- Enhances Mutual Agreement Procedures (MAPs) to resolve double taxation disputes arising from BEPS-related tax adjustments.
- Encourages binding arbitration in tax disputes to ensure timely resolution.

Strengthening Global Tax Integrity Through OECD BEPS Actions



Global Impact of BEPS on Transfer Pricing

1. Increased Compliance and Reporting Obligations

- MNEs must invest in detailed transfer pricing documentation to justify intercompany transactions.
- Non-compliance with CbCR and documentation rules leads to high penalties and increased tax scrutiny.

2. Greater Tax Authority Scrutiny and Enforcement

- Tax authorities now have access to granular financial data, allowing them to detect profit shifting more effectively.
- More jurisdictions are implementing mandatory disclosure rules for aggressive tax planning.

3. Rise in Transfer Pricing Audits and Adjustments

- Many tax authorities are reassessing intra-group transactions, leading to tax adjustments.
- MNEs face a higher risk of retroactive tax assessments and penalties.

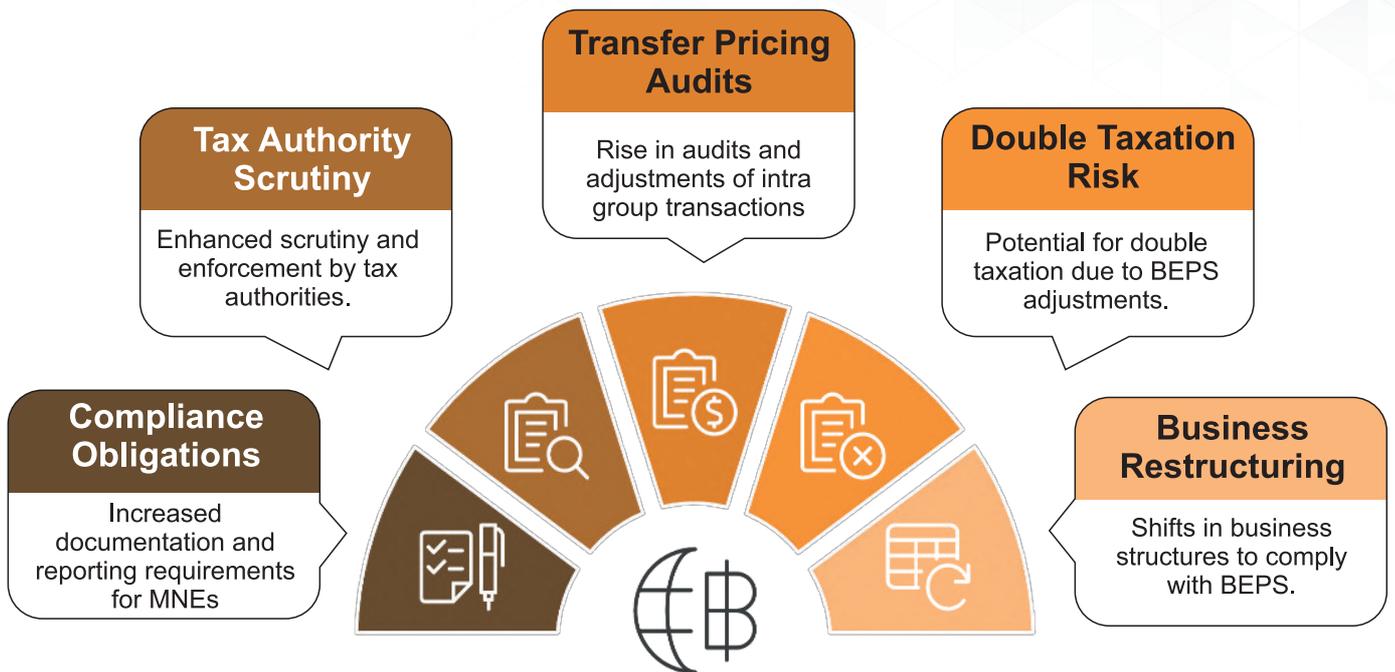
4. Potential for Double Taxation

- BEPS-driven tax adjustments may result in double taxation if no corresponding adjustment is granted in the counterparty jurisdiction.
- This has led to an increase in Advance Pricing Agreements (APAs) to pre-empt disputes.

5. Shifts in Business Structures and Supply Chains

- MNEs are restructuring value chains to align with BEPS-compliant models.
- Some companies are onshoring intellectual property (IP) rights or relocating entities to countries where real economic activity occurs.

BEPS-Driven Changes in Global Transfer pricing Dynamics



BEPS 2.0: The Future of International Taxation

With the success of the initial BEPS project, the OECD and G20 launched BEPS 2.0, focusing on:

Pillar One: Reallocation of Taxing Rights

- Targets large digital and consumer-facing businesses.
- Ensures that companies pay tax in countries where they have a significant market presence, even without a physical presence.

Pillar Two: Global Minimum Tax

- Introduces a 15% global minimum tax for large MNEs.
- Prevents profit shifting by ensuring that income is taxed at a minimum rate, regardless of where it is reported.

14. Interplay of GAAR and Transfer Pricing

GAAR, on the other hand, is designed to counter aggressive tax planning that exploits legal loopholes and results in tax avoidance.

While TP focuses on pricing and profit allocation, GAAR focuses on substance over form—looking at the purpose and effect of a transaction.

Objectives

- Prevent tax avoidance through impermissible avoidance arrangements.
- Denial of tax benefit if primary purpose is tax avoidance.

Legal Framework in India (Sec 95 to 102 of the Income-tax Act, 1961)

- Introduced in India in 2012, made effective from 1 April 2017.
- Applies to “impermissible avoidance arrangements” (IAA), where:
 - The main purpose is tax benefit,
 - And it lacks commercial substance or results in misuse of tax provisions.

Interplay of GAAR and Transfer Pricing

While both aim to protect the tax base, they do so through different lenses. Their intersection arises in the following scenarios:

➤ Complementary Nature

- TP ensures correct pricing of related party transactions.
- GAAR goes beyond pricing to examine whether the transaction itself is genuine or created just to obtain tax benefits.

Example: A company sets up a shell company in a low-tax jurisdiction and routes transactions through it at arm's length prices. While TP may not question this if ALP is met, GAAR can step in to check if the arrangement has commercial substance or is meant only to obtain tax benefits.

➤ When GAAR Overrides Transfer Pricing

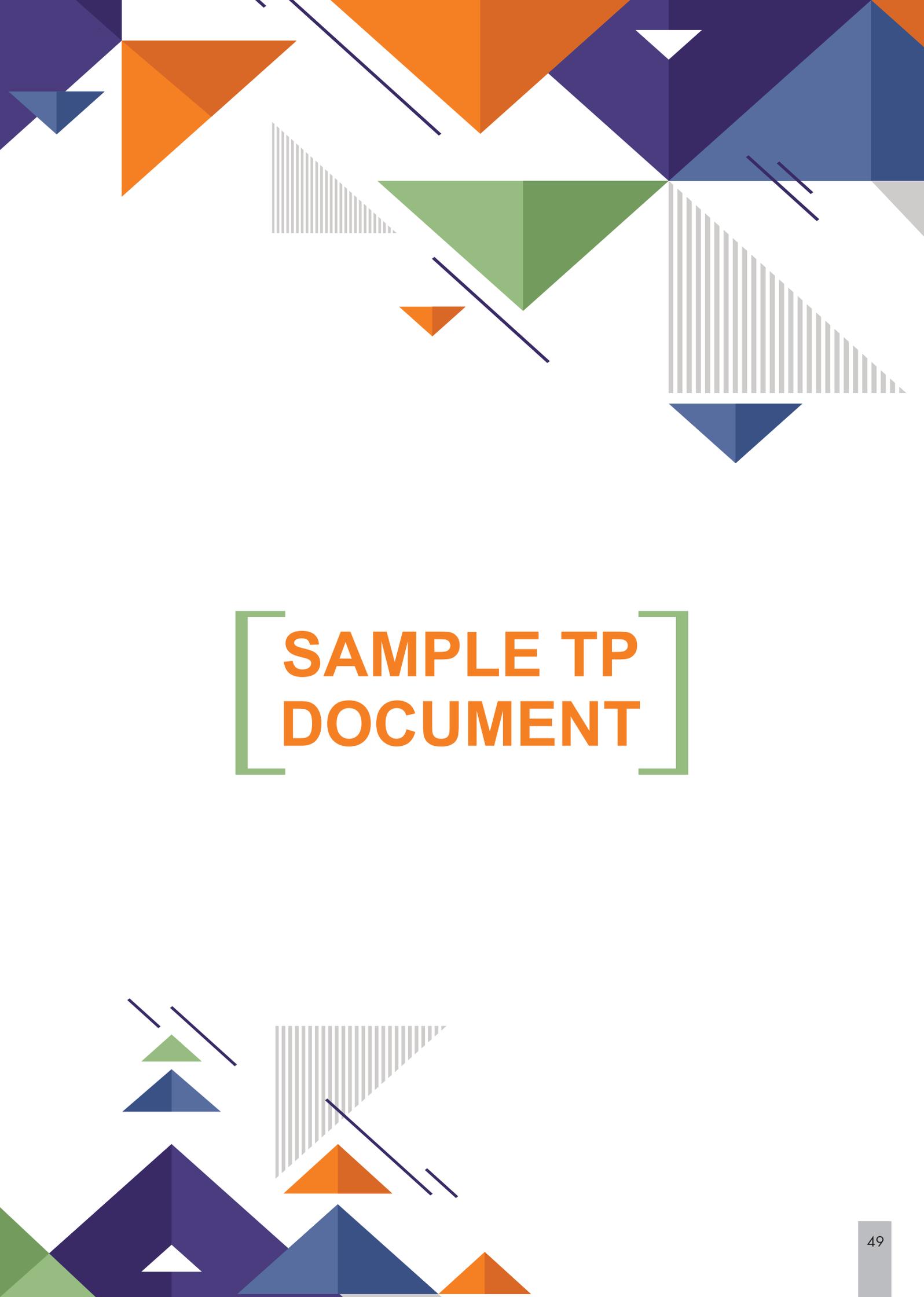
- Even if TP regulations are complied with, GAAR can override if:
 - The structure itself is abusive, or
 - Transactions have no commercial rationale beyond tax savings.

CBDT Circular No. 7 of 2017:

- GAAR can co-exist with SAAR (Specific Anti-Avoidance Rules) such as TP provisions.
- Where SAAR (like TP) is inadequate to tackle the arrangement, GAAR may apply.

Administrative Safeguards for GAAR

- GAAR applies where the tax benefit exceeds ₹3 crores.
- Approval of Principal Commissioner or Commissioner, and a 3-tier review mechanism is required.
- CBDT guidance mandates a facts-and-circumstances-based approach.



**[SAMPLE TP
DOCUMENT]**

1.Executive Summary

1.1. Objective of the report

Indian Company Technologies Private Limited ('the Company or Indian Company India or Indian Company ') has undertaken international transactions with its associated enterprises ('AEs') and this report is intended to reflect our understanding of the information / documentation that Indian Company India had maintained and the economic analysis undertaken by the specified date(as prescribed in clause (iv) of section 92F of the Income-tax Act, 1961 ('the Act')), hereinafter referred to as 'specified date', as provided for and in compliance with Section 92D of the Act, read with Rule 10D of the Income-tax Rules, 1962 ('the Rules').

The objective of this report is to review whether the international transactions (as documented in this report) between Indian Company India and its AEs adhere to the arm's length principle, contained in the Indian Transfer Pricing Regulations ('Indian Regulations') and in addition refers to the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations ('OECD Guidelines — January 2022') published by the Organisation for Economic Cooperation and Development ('OECD') for guidance in applying the arm's length standard.

Indian Company is primarily engaged in providing software development services to its AEs.

The facts and analysis provided in this report have been confirmed by Indian Company India.

Based on the functional and economic analysis undertaken in the subsequent sections of this report; the summary of the international transactions and arm's length prices have been provided in the table below.

(This space has been intentionally left blank)

Summary of International Transactions

Nature of International Transaction	Name of the Tested Party	Transfer pricing method Selected	Indian Company India (Tested Party)		Comparable Data		
			Transfer Price (INR)	(In OP/OC)	Type	Arm's length range (OP/OC)	Whether at Arm's length?
Provision of SD's	Tested Party Name	Transaction Net Margin Method ("TNMM")	INR /-	xx%	Indian Companies	Range of xx% to xx% with a median of xx%	Yes

Indian Company India contends that the receivables and payables represent amounts arising in the course of business and that the same have been / will be received / paid within a reasonable period. The impact of the receivables and payables have been appropriately considered while determining the ALP of the underlying international transaction. Having regard to the same and economic and commercial considerations, Indian Company Group contends that the same is not inconsistent with the arm's length standard.

The analysis in this report indicates that the international transactions of Indian Company India were in accordance with the arm's length standard required under the Indian Regulations.

It is important to note that the results of the transfer pricing analysis are based on facts and financial data pertaining to the financial year ended 31 March 2024.

2. Group Overview

2.1. Foreign Company Inc.

About Associated Enterprises

2.2. Indian Company India

About Indian Company

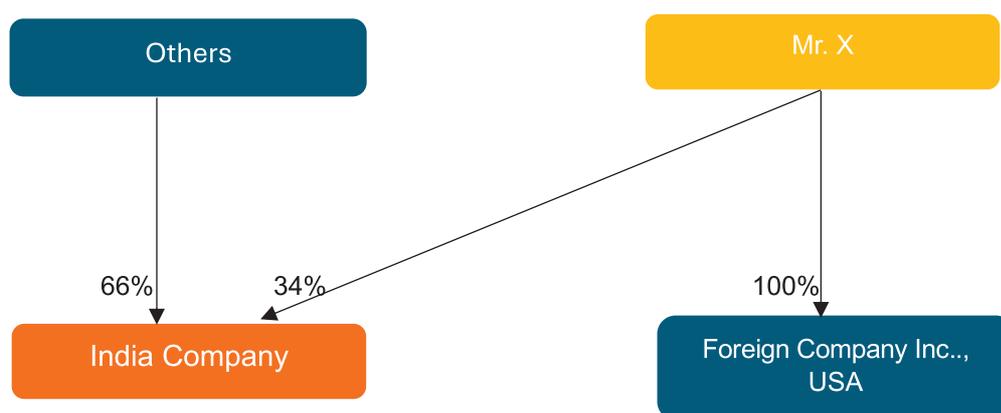
2.3. Indian Company India - Ownership structure

The ownership structure of Indian Company as of 31 March 2024 is as follows:

Ownership structure of Indian Company as of 31 March 2024

Shareholders	No. of shares
Mr. X	34%
Mr. Y	33%
Mr. Z	33%
Total	100%

Ownership Structure



3. Industry Overview

3.1. Objective

The Indian Regulations¹ prescribe that the comparability of an international transaction with an uncontrolled transaction shall be judged with reference to the conditions prevailing in the markets in which the respective parties to the transactions operate. Hence, for the purposes of transfer pricing analysis an overview of the industry is essential.

3.1.1. Information Technology ('IT')

IT is the use of computers, storage, networking and other physical devices, infrastructure and processes to create, process, store, secure and exchange all forms of electronic data.²

The IT sector includes a wide range of services including IT services (software development, networking and telecommunications, internet services, e-commerce, digital content creation and IT consulting), computer hardware, telecom and software products. The services are used by small, medium and large enterprises of financial services, retail and wholesale, manufacturing, healthcare and others.

The IT sector has grown rapidly in recent years due to increasing use of computers and the internet, both personal and business. It is a key driver of economic growth and innovation and has transformed many aspects of modern life, including the way we work, communicate and access information.³

3.1.2. Global IT Industry

The global IT market is segmented as follows:

By type: IT services, computer hardware, telecom, software products;

By organization size: Small, medium and large enterprise;

By end user industry: Financial services, retail & wholesale, manufacturing, healthcare and other end user industries.⁴

The global IT market was worth USD 8,509.4 billion in fiscal year 2023⁵ and is expected to grow to USD 9,039 billion in fiscal year 2024, at a compound annual growth rate ('CAGR') of 6.2%.⁶

The table and chart below depicts the segment and region wise split of the IT market for fiscal year 2023, respectively:

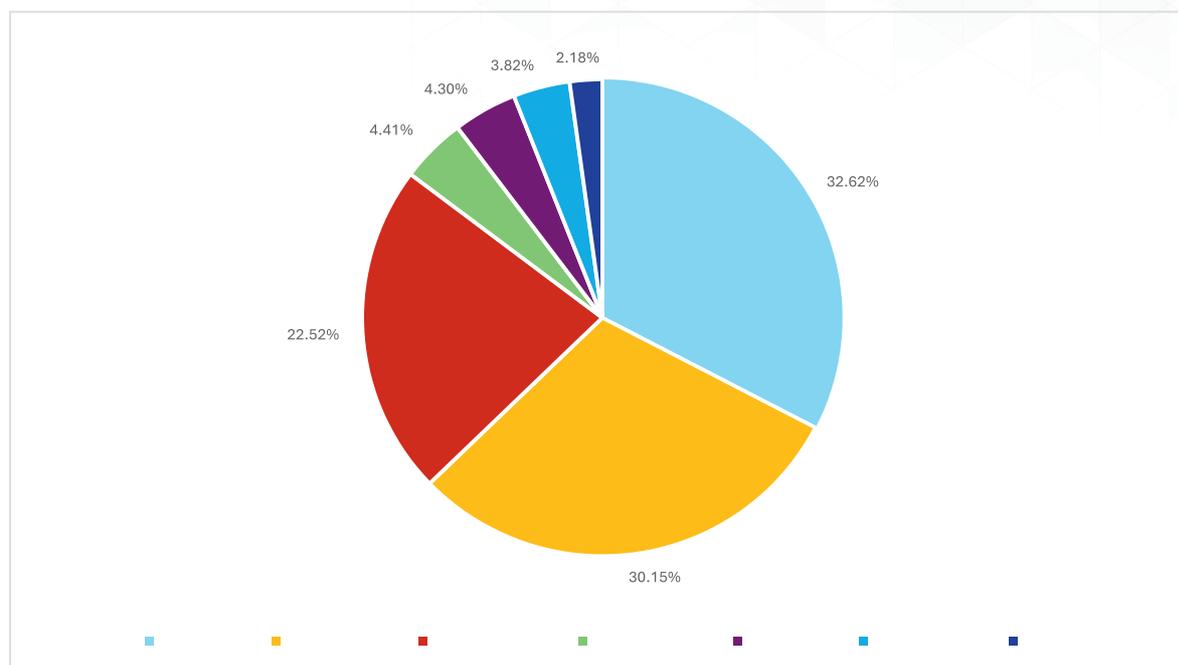
Global IT Market split by segment for fiscal year 2023

Segment	Segment share (%)	Market value (USD billion)
IT Services	40.12%	3,414.26
Telecom	34.91%	2,970.88
Software Products	17.04%	1,449.67
Computer Hardware	7.93%	674.59
Total	100%	8,509.40

Source: Market Data Sources, TBRC Estimates, TBRC Analysis

Further, a region wise split of the global IT market for fiscal year 2023 is provided below:

Global Information Technology Market, Split By Region in fiscal year 2023



Asia-Pacific ('APAC') was the largest region in the IT market in fiscal year 2023 accounting for USD 2,775.45 billion or 32.62% of the global IT market, followed by North America being the second largest region, accounting for USD 2,565.41 billion or 30.15% of the global IT market. The other markets put together account for USD 3,168.54 , which is approximately 37.23% of the global IT market.⁷

Major Trends

The major trends shaping the global IT market include the following⁸:

- **Cloud/Software As A Service ('SaaS')**: Cloud software solutions have been gaining acceptance from companies across all industries as it aids companies to reduce IT expenditures. Cloud is a software delivery method where a vendor hosts a software application in a remote server and customers can access it through the internet. Since customers are increasingly looking for cost-effective solutions, companies should consider offering software services on the cloud with pay-per-usage payment models.
- **Green Technologies Adoption**: Rapid increase in energy consumption has been a major threat to environmental protection and sustainable development, thus driving the development of green technologies, e.g., communications hardware accounts for about 2% to 4% of the total global carbon emissions. Due to access to the high-speed internet provided by next-generation wireless networks and increased smartphone usage, data traffic has increased significantly. This has triggered a significant expansion of network infrastructures and increased the energy demands. Environment friendly batteries, renewable energy sources, and intelligent management of the power systems are being developed to reduce carbon emissions.

- **Subscription Revenue Model:** Design, editing and software vendors are gradually shifting towards a subscription revenue model to increase subscriber base. The model is priced at around one-fifth of the license fees of the software. Companies in the industry are offering software products through a subscription revenue model to help companies reduce their IT expenditure.
- **Mergers And Acquisitions ('M&A'):** The software products industry is witnessing a surge in M&A activity. Large companies are acquiring small companies to increase their product and service offerings. High-performance cloud computing businesses and enterprise software vendors are the main acquisition targets for software product companies.
- **Open-Source Software Gaining Ground:** Software companies are offering their products on open source platforms as it has become a preferred platform for developing new technology. Now companies are open to sourcing software to increase its presence and share in the market.
- **Fifth-Generation Mobile Networks:** The biggest change in the telecoms industry is the emergence of fifth-generation mobile networks ('5G'). 5G has proven to be much quicker than 4G, providing the capacity needed to support the IoT (Internet of Things) revolution.
- **Network Functions Virtualization ('NFV'):** NFV is receiving significant investment from wireless telecom service providers. It supports the virtualization of components allowing a flexible network infrastructure that enables applications and services to be moved to the cloud. Companies are also offering tools and professional services to assist operators to migrate to NFV. The NFV market is expected to reach USD 122 billion by 2027 at a CAGR of 34.9% indicating a high growth rate in upcoming years.

3.1.3. Indian IT services

The Indian IT industry is a global powerhouse today. It has contributed immensely in positioning the country as a preferred investment destination amongst global investors and creating job opportunities. In the last decade, the Indian IT industry has grown many folds in revenue terms, and its relative share to India's GDP is around 7% in FY 2023-24.

Further, revenue in the BPO market is projected to reach USD 7.19 billion in FY 2024. Revenue is expected to show an annual growth rate (CAGR 2024-2029) of 8.76%, resulting in a market volume of USD 10.94 billion by 2029.⁹

India's IT/ITeS industry has continued to perform its role as the consistent growth driver for the economy. The performance of this sector (both export and domestic) over the last 5 years is tabulated below:

Table 1: Performance of the IT/ITeS sector over the last 5 years

Description	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24 (E)
Exports	147	152	178	194	200
Domestic	44	45	49	51	54
Total Revenue	191	196	227	245	254
Y-o-Y Growth	7.90%	2.09%	15.5%	7.9%	3.7%

Source: Nasscom, (E) = Estimated¹⁰; All amounts in USD Billion

India's IT-Business process Management ('BPM') industry (excluding e-commerce) is expected to reach

an estimated USD 254 billion, including exports of USD 200 billion in FY 2023-24. The IT/ITeS sector has also created employment opportunities and is estimated to employ 5.43 million professionals, an addition of 60,000 people over FY 2022-2023. Women employees account for 36% share in total industry employeabase.¹¹

India exports

The Indian IT industry is the largest contributor in total service exports for India. The USA, UK and EU remain the primary markets for the IT software and services exports, accounting for 62%, 17% and 11% of the total IT-ITeS exports respectively, however, there are new challenges surfacing in these traditional geographies. Demands from APAC, Latin America and Middle East Asia are growing and new opportunities are emerging for expanding in continental Europe, Japan, China and Africa.¹²

It is anticipated that India's export revenue from IT services (excluding hardware) will reach USD 200 billion in reported currency, representing a 3.3% increase over FY 2023, and the domestic technology sector is expected to cross USD 54 billion, growing at 5.9% y-o-y with the engineering, research and development ('ER&D') industry making over 48% of the total export growth in income for FY 2024.

Revenues from domestic market grew to USD 54 billion supported by various government initiatives such as digital India, start-up India, smart cities and digital payments.

Despite global headwinds and some moderation in demand, the industry value proposition of resilience, agility and a transformation partner for global enterprises, enabled the industry to strengthen its leadership in core and emerging areas in FY 2024. Rise in demand for collaborative applications, application platforms, security software, system & service management software, and content workflow & management applications has led to growth in software products segment.¹³

The computer software and hardware sector in India attracted cumulative foreign direct investment ('FDI') inflows worth USD 102.9 billion between April 2000-March 2024. The sector ranked second in FDI inflows as per the data released by Department for Promotion of Industry and Internal Trade ('DPIIT'). Computer software and hardware make up 15.16% of the cumulative FDI equity inflows.¹⁴

SWOT analysis for the India IT sector

The IT industry is influenced by several factors including digital transformation, adoption of new technologies, and supportive government policies.

Strengths

- **Skilled Workforce:** India has a large pool of skilled IT professionals who are proficient in English and adept in various cutting-edge technologies. This talent pool is a result of the country's robust educational system, particularly in STEM (Science, Technology, Engineering, and Mathematics) fields.
- **Cost-Effectiveness:** The cost of operations in India is relatively lower compared to other major IT hubs. This cost advantage makes India an attractive destination for outsourcing IT services and back-office operations.
- **Growing Domestic Market:** With a large and growing population, the domestic market for IT services in India is expanding rapidly. Increased internet penetration and mobile usage are driving demand for digital services.
- **Government Initiatives:** The Indian government has launched several initiatives like 'Digital India' and 'Make in India' to promote the IT sector. These initiatives aim to transform India into a digitally empowered society and knowledge economy.

- **Start-up ecosystem:** Tech startups are emerging as powerful engines of job creation in India, directly employing over 10.34 lakh individuals in FY 2023. Tech startups are at the forefront of innovation, continually pushing the boundaries of technology and introducing disruptive solutions across various sectors.¹⁵

Weaknesses:

- **Infrastructure Challenges:** Despite improvements, infrastructure issues such as inconsistent power supply and inadequate connectivity can hamper IT operations, especially in smaller cities and rural areas.
- **Data Security:** Concerns around data privacy and security have been rising globally, and India's IT sector needs to continuously enhance its cybersecurity measures to maintain trust and competitiveness.
- **Dependence on Certain Markets:** A significant portion of India's IT revenue comes from a few markets, particularly the United States and Europe. This dependence makes the sector vulnerable to economic fluctuations in these regions.

Opportunities:

- **Digital Transformation:** As businesses worldwide accelerate their digital transformation, there is a growing opportunity for Indian IT companies to offer new services and solutions in areas like cloud computing, artificial intelligence, and big data analytics.
- **Government Digital Initiatives:** The push for digitalization in government services opens up new avenues for IT companies to collaborate on public projects and e-governance.
- **Global Delivery Model:** The pandemic has shown that remote work is viable, and this could lead to a more distributed global delivery model for IT services, with India being a key player.

Threats:

- **Global Competition:** Other countries are also developing their IT capabilities and could challenge India's position as a preferred IT outsourcing destination.
- **Policy Changes in Client Countries:** Changes in immigration policies, particularly in the US with H-1B visa restrictions, can affect the mobility of Indian IT professionals and impact the business model of Indian IT companies.
- **Technological Disruptions:** Rapid technological changes require constant upskilling of the workforce. Failure to keep up with these changes could lead to a skills gap and reduced competitiveness.¹⁶

Growth drivers

The key drivers to the growth of IT sector in India includes:

- Cost of operation;
- Supportive government policies;
- Availability of technically skilled manpower;
- Rapid introduction of IT technologies in major sectors such as telecom, BFSI etc.;
- Strong growth in export demand;
- Adoption of new technologies like cloud computing, AI, Big Data etc.

Emerging technology trends¹⁷

- **5G:** The roll-out of 5G technology is expected to revolutionize connectivity with higher speeds and lower latency and massive IoT integration. AI will play a crucial role in managing 5G networks, ensuring optimal performance and resource allocation.
- **Edge computing:** Telecom companies are investing in edge computing to handle the massive data generated by 5G networks and IoT devices. AI at the edge can process data locally, leading to faster decision-making and reduced latency.
- **Smart cities:** The integration of AI and telecom is key to developing smart cities.
- **Cloud utilization:** By 2026, widespread cloud utilization could add USD 380 billion to India's GDP and provide employment opportunities for 14 million people.¹⁸
- **Full-stack web developers:** By 2024, India is expected to have the largest pool of developers globally, with a growth rate of 39%.
- **SmartX:** This trend links devices and data to applications and execution.
- **Generative AI -** Generative AI language models have gained popularity across the globe. The increasing demand for generative AI models for applications such as image and video generation, chatbots and content creation will help the market to achieve a significant growth in the coming years.

Government Initiatives¹⁹

Some of the major initiatives taken by the Government to promote IT sector in India are as follows:

- The Union Minister of State for Electronics and IT has unveiled an initiative known as "IndiaAI." This initiative reflects the government's strong commitment to fostering a thriving startup ecosystem focused on developing AI solutions to address both local and global challenges.²⁰ As part of the vision of 'Making AI in India' and 'Making AI Work for India,' the Union Cabinet has approved the comprehensive national-level India Artificial Intelligence mission with a budget outlay of INR 10,371.92 crore.²¹
- The Ministry of Electronics and Information and Technology (MeitY) has approved 14 eligible applicants under the production linked incentive scheme (PLI) for IT hardware. Cabinet approved

PLI Scheme –

2.0 for IT Hardware with a budgetary outlay of INR 17,000 crore (USD 2.06 billion)²²

- India-US Initiative on Critical and Emerging Technology ('iCET'): The iCET is a collaborative effort between India and the United States to expand strategic technology partnerships. It focuses on promoting technology designed, developed, governed, and used in line with democratic values and respect for human rights and covers critical areas such as AI, Quantum Technologies, and Advanced Wireless. An Indo-US Quantum Coordination Mechanism is being established to encourage research and industry collaboration.
- In the Union Budget 2024, the allocation for the IT and telecom sector stood at INR 97,579.05 crore (USD 11.8 billion) vis-à-vis INR 53,208 crore (USD 7.31 billion) in Union Budget 2021.
- In August 2022, the Indian Computer Emergency Response Team (CERT-In), in collaboration with the Cyber Security Agency of Singapore (CSA), successfully planned and carried out the "Synergy" Cyber Security Exercise for 13 countries to build network resilience against ransomware attacks;
- In April 2022, the Indian Computer Emergency Response Team (CERT-In) issued directions to strengthen the cybersecurity in the country;
- In September 2021, the MeitY organised a workshop under the theme of 'Connecting all Indians', to promote public and private stakeholders' interest in the country and expand internet access to remote areas. The workshop invited both public and private stakeholders including largest internet service providers in the country to share their views on achieving universal internet coverage and keeping in view the vision of creating the largest fiber based rural broadband connectivity project BharatNet, which was also reviewed during the workshop.²³

Way forward

The IT software industry is flanked by a rising demand for emerging technologies like cloud transformations, data analytics, generative AI cyber security, ER&D and global capability centres ('GCC's). There has been a surge in investments in these emerging technologies which are expected to prompt companies to start spending on non-core and tech-enabled services.

Further, there has been a huge demand for sustainability offerings like consulting services and adapting to the climate crisis alongside exponential growth in sustainable financing. Climate change is leading to increased instances of heatwaves, floods, and natural disasters. It has become an important topic for boardroom discussion and investors seeking disclosures.

Accordingly, IT services companies launched internal sustainability-related practices & technologies and provided ESG consulting to help customers baseline and build a roadmap and help them meet the targets with IoT-based solutions like energy and renewable energy management.

Furthermore, the IT industry may see US Dollar revenue decline going forward and there is uncertainty about the outlook given the uptick in layoffs and subdued demand for discretionary services in a seasonally weak quarter. The customer sentiment is cautious across BFSI, retail, and technology in the US and Europe. The overall client additions for the industry should also be monitored as the companies are focusing on existing clientele for future business and growth opportunities to secure larger deal wins over adding more clients.

While the sector dynamics continue to remain intact, uncertainties stemming from high inflation, slow decision-making or deferment of discretionary projects, and a recessionary environment, particularly in the US and European markets, could potentially hinder discretionary IT spending by corporations.²⁴

Conclusion

IT and ITeS industries play a key role by contributing in positioning the country as a preferred investment destination for global investors. The industry also creates large scale employment and generates significant export revenues. Emerging technologies and rise in demand for collaborative applications, application platforms, security software, system & service management software, and content workflow & management applications offer an opportunity for top IT firms in India through cost-effectiveness, speedy deliveries, reliability and quality.²⁵

Increasing digitization and rise in demand for emerging technologies like 5G, Advanced Data Analytics, Artificial Intelligence, Cloud Computing, Cyber-Security, Robotics and Blockchain provide growth opportunities for Indian IT/ITeS firms.²⁶

4. Overview of International Transactions

During FY 2023-24, Indian Company provides Software development services to Foreign Company Inc.. Indian Company India contends that the receivables and payables represent amounts arising in the course of business and that the same have been / will be received / paid within a reasonable period. The impact of the receivables and payables have been appropriately considered while determining the ALP of the underlying international transaction. Having regard to the same economic and commercial considerations, Foreign Company Inc. contends that the same is not inconsistent with the arm's length standard.

5. Functions, Assets and Risk (FAR) Analysis

A functional analysis facilitates the characterization of the transactions between AEs after taking into account their functions, assets and risks and assists in establishing a degree of comparability with similar transactions in uncontrolled conditions.

5.1. Provision of SWD Services

5.1.1. Functions performed by Indian Company India and its AE's

❖ *Execution of Software development services*

Indian Company India is responsible for the operational day-to-day execution of the software development projects on behalf of the Foreign Company Inc. within the project scope, technical quality standards and limits approved by the Foreign Company Inc.. The Service Provider does not set up or execute any projects on its own decision or for its own account but acts as Service Provider for Foreign Company Inc.. Given the software development services focus of the Service Provider, this might involve different software activities as specified in greater detail above, when describing the controlled transactions.

The Service Provider maintains a technically skilled and experienced workforce, which is able to meet the Foreign Company Inc. requirements with respect to the software development services. As all relevant decisions decisive for the respective project success have to be agreed with and approved by the Foreign Company Inc..

❖ *Project set-up and monitoring*

It is the Foreign Company Inc. that finally decides on new projects and approves agreed project scope, quality standards, timetables, and other project details. Both parties, i.e. the Service Provider and the Foreign Company Inc. enter into a project agreement. The project agreement shall also specify the assignment of capacities of both parties to the project to ensure that the Service Provider as well as the Foreign Company Inc. dispose of the necessary resources to perform their work, documentation and oversight tasks as agreed. The software support objectives as well as technical requirements and specification, deliverables, schedules, competencies and (organizational) responsibilities, and legal requirements of the Service Provider and the Foreign Company Inc. at the different project stages are fixed in a so-called project specification book. Indian Company has to document its activities in accordance with the project agreement and the project specification book. If unforeseen (technical) problems or new alternatives arise during the project execution, the Service Provider has to contact the Foreign Company Inc. to discuss available project options and obtain prior approval for an adjusted or amended project scope. It is the responsibility of the Foreign Company Inc. to update the project specification book in consultation with the Service Provider, if applicable.

❖ *Budget set-up and budget control*

When new projects are set up, the Service Provider performs an initial bottom-up estimation of the project costs. When discussing the projects specifications and determining the project details, the project budget is determined between the FOREIGN COMPANY . and the Service Provider and aligned to the final project scope. The final project budget has to be approved by the Foreign Company Inc. before the project will start and will be included in the project agreement as well.

The Service provider is responsible for monitoring the budget and the close communication of the budget development to the Foreign Company Inc.. In case the actual project costs exceed the estimated costs, the Service Provider will request for an appropriate fee extension with the Foreign Company Inc.. As it is the Foreign Company Inc., which has full budget control, all changes with respect to the budget have to be discussed in advance with the Foreign Company Inc.. The Service Provider shall not incur any extra costs before receiving the Foreign Company Inc. decision, if not agreed otherwise within certain limits.

❖ *Quality control*

It is the Foreign Company Inc. that determines and sets the quality standards for a certain project, which are documented in the project specification book. Generally, both parties have to comply with relevant requirements for a quality management system as specified under the prevailing version of the applicable ISO regulations. The Service Provider then performs quality control checks throughout the software development process, ensuring the conformity of the design and development or testing results and other deliverables to the requirements and quality standards as defined by the Foreign Company Inc.. Based on the details fixed in the project specification book, the Foreign Company Inc. is responsible for the final testing and approval of the Service Provider's deliverables. In the event there are any issues with the design and development results, the Service Provider has to rework on the deliverables to amend the problems identified. However, Indian Company India being compensated on a cost-plus basis is remunerated for the re-work.

❖ *Procurement*

The Service Provider is responsible for purchasing equipment and components required for its software activities. The Service Provider generally purchases the equipment and components required for the

R&D projects in its own name and on its own account. To some extent, material and components may partly be provided by the Indian Company.

❖ *Invoicing*

The Service Provider prepares the invoices and manages its accounts receivables with respect to the services rendered to customers. The Service Provider regularly issues invoices during the business year. If required, the Service Provider shall deliver supporting documents showing the appropriateness of the invoice.

❖ *Strategic management functions*

The strategic management functions are led only by the Foreign Company Inc.. The Foreign Company Inc. designs the overall (design and development) strategy for the group and provides general oversight of all activities for software activities. Strategic decisions related to the group are undertaken by the Foreign Company Inc.. By design, no strategic functions are performed by the Service Provider.

❖ *Administrative service functions*

Administrative service functions relate to the day-to-day management of a company's organization (e.g. finance, human resources, information systems, etc.). The Service Provider is responsible for arranging the necessary resources to operate its business. In this respect, the Service Provider manages its own cash flows, accounts payable, accounts receivables, employees, information systems and is responsible for training and hiring of employees. The Service Provider drafts its policies within the broad framework of FTDLLC Risks assumed.

5.1.2. Assets Employed

Any business requires assets (tangible or intangible) without which it cannot carry out its activities. Intangibles play a significant role in the functioning of a business and are accordingly more important. An understanding of the assets employed and owned by Indian Company India and its AEs provide an insight into the resources deployed by them and their contribution to the business processes / economic activities of the transacting entities.

Tangible assets

Indian Company India utilizes its computer hardware, office equipment, furniture and fixture, leasehold improvements etc. for the purpose of its business. All assets of Indian Company India are either directly or indirectly used for the purpose of carrying out its business activity.

Intangible assets

Any business requires assets for undertaking its operations. Indian Company India uses the process, technical data software, quality standards, etc. owned by Indian Company India for its provision of software development services. Any business requires assets for undertaking its operations. Indian Company India is the owner or licensee of rights, titles and interest in intellectual properties ('IP').

5.1.3. Risks assumed

The risk profile of Indian Company India vis-à-vis its AEs is provided in the table below:

Risk Category and Description	Exposure of Indian Company India	Exposure of AEs
<p>Product / Service Liability Risk: Risks associated with product / service failures including non- performance in accordance with generally accepted or regulatory standards or errors in the provision of services. This could result in product recalls and possible injuries to end-users.</p>	<p>Indian Company is merely a provider of services to AE. However, it is required to render services according to certain quality standards as laid down by the AE. The ultimate quality control functions are carried out by the AE who takes the ultimate ownership of the product / deliverables to its customers. Hence, Indian Company is not exposed to any service liability risk.</p>	<p>FOREIGN COMPANY enters into contracts with customers. The services are delivered to the end customer by the FOREIGN COMPANY based on the capacity of its own. Therefore, FOREIGN COMPANY assume the entire product/ service liability risk.</p>
<p>Capacity Utilisation Risk: This risk arises on account of under utilisation of manufacturing/ service facility/personnel.</p>	<p>Indian Company is compensated on a cost plus mark up for provision of services to AE and hence is insulated from any risks or financial impact arising out of underutilization of its capacity/ work force.</p>	<p>AE is responsible for planning and utilising the development centres for development of its applications/ solutions and hence is exposed to capacity utilisation risk.</p>
<p>Technology: This risk arises if the market in which the Company operates is sensitive to introduction of new products and technologies. Hence, business units may face loss of potential revenues due to inefficiencies arising from obsolete infrastructure and tools as well as obsolescence of processes.</p>	<p>Any decision w.r.t managing of the changing technologies and its impact on the operations are the responsibility of AE. Indian Company does not have ultimate customer interface and provides services based on specifications received from the AE. Accordingly, Indian Company is not exposed to the risk of technology obsolescence due to change in technology and does not assume technology risk.</p>	<p>AE operates in an environment and the internet technology space, which is extremely susceptible to introduction of new technologies. It needs to continuously innovate and create new products to generate revenue growth and meet the requirements of its customers. Accordingly, AE is exposed to this risk.</p>
<p>Credit or bad debt Risk: This is the risk arising from non-payment of dues by customers.</p>	<p>In respect of the provision of services, Indian Company is assured of its payment from AE and hence does not bear any risk of non-payment for the services provided.</p>	<p>FOREIGN COMPANY undertakes the projects/ provides services to a wide array of customers worldwide, which might result in non-payments and bad debts.</p>

<p>Foreign Exchange Risk: This risk relates to the potential impact on profits that may arise because of changes in foreign exchange rates.</p>	<p>With respect to providing services, Indian Company raises invoices in foreign currency and receives the payments in local currency. FTD India is therefore exposed to foreign exchange risk to that extent.</p>	<p>FOREIGN COMPANY has business dealings with a number of companies in different parts of the world. Therefore, FOREIGN COMPANY is exposed to foreign exchange risks.</p>
<p>Manpower Risk: Any enterprise which is largely dependent, for its success, upon quality personnel with superior technical knowledge is faced with this risk. Competitive</p>	<p>With respect to providing the required services, Indian Company has the risk of recruiting and retaining key technical personnel. However, Indian Company is compensated with a</p>	<p>FTD LLC has a greater degree of manpower risk since it has the dual responsibility of retaining key personnel as well as ensuring</p>

5.2. Characterisation

Based on the facts as presented in the above analysis of functions performed, assets employed and risks assumed, Indian Company is characterized as a contract service provider assuming low risks associated in relation to provision of Software Development Services and Other IT Enabled Support Services.

The AEs could be characterised as entrepreneur for the software development services that they avail from Indian Company, as they own all the valuable IP rights and consequently bear all significant business and entrepreneurial risks.

5.3. Pricing policy

As per the inter-company entered between Indian Company India and its AEs, Indian Company India is compensated on the basis of cost plus a mark-up for the provision of software development and Other IT Enabled Services.

6. Economic Analysis

6.1. Aggregation of international transactions

In order to assess, whether the international transactions entered into by Indian Company India are at arm's length, a transfer pricing method may be applied to each of the said transactions separately or to all such transactions as a single group of transactions. In the instant case, given the range of transactions involved, the arm's length method cannot be adequately applied on a transaction-by-transaction basis.²⁷ Accordingly, based on the above, for the purposes of determining the ALP, the aforesaid international transactions have been aggregated for benchmarking.

Trade payables
Trade receivables

The amount incurred for the above-mentioned transactions, has been considered as part of operating cost base for calculating operating margin of Indian Company India. Also, the said transaction is closely

linked and is integral to the primary transactions of provision of software development services and Other IT Enabled services. Thus, these transactions are not being evaluated separately from a transfer pricing perspective and are evaluated by adopting a combined transaction approach.

6.2. Selection of the tested party

The choice of the tested party should be consistent with the functional analysis of the transaction. As a general rule, the tested party is the one to which a transfer pricing method can be applied in the most reliable manner and for which the most reliable comparables can be found i.e. it will most often be the one that has the less complex functional analysis.²⁸

Based on the business overview, Foreign Company Inc. (USA) consequently bears all significant business and entrepreneurial risks and is the complex of the entities entering into transaction. Indian Company India has least complex operations and bears lesser share of risks. Further, the profitability of Indian Company India can be benchmarked reliably using the fewest and most reliable adjustments. Accordingly, Indian Company India is selected as the tested party for the analysis.

6.3. Data availability

To determine whether any one of the transfer pricing methods can be applied, the availability, coverage and reliability of data necessary for application of the method is important. Based on Rule 10B of the Rules, comparables for the international transactions would have to be transactions which are comparable in terms of functions performed, risks assumed, and assets utilised. Further, such transactions should themselves be independent and uncontrolled.

In practice, there are two types of comparable uncontrolled transactions. The first, known as an 'Internal Comparable', is a transaction between one of the parties to the controlled transaction and an unrelated third party. The second, known as an 'External Comparable', is a transaction between two unrelated third parties. Generally, specific details regarding internal comparable are more readily available to the parties engaged in the controlled transaction than details regarding external comparable.

6.4. Most appropriate method²⁹

The Indian Regulations provide no priority of methods. Rather, the selection of the pricing method to be used to test the arm's length character of a controlled transaction must be made under the most appropriate method rule as provided under section 92C(2) of the Act and Rule 10C of the Rules. The most appropriate method is that method which, under the facts and circumstances of the transaction under review, provides the most reliable measure of an arm's length result.

In determining the reliability of a method, the two most important factors to be taken into account are (i) the degree of comparability between the controlled and uncontrolled transactions and (ii) the coverage and reliability of the available data. According to the Indian Regulations³⁰, other factors such as the nature and class of international transactions, conditions prevailing in the markets, the extent and reliability of adjustments that can be made, and the extent and reliability of assumptions that may be required in applying the method, shall also be taken into account.

Because the selection of the most appropriate method involves a test of relative merit, a method that may not be perfect is not considered inappropriate unless some other method can be shown to be more reliable or providing a better estimate of an arm's length result.

Selection of most appropriate method

6.4.1. Comparable uncontrolled price method

The comparable uncontrolled price ('CUP') method compares the price charged for property or services transferred in a controlled transaction to the price charged for property or services transferred in a comparable uncontrolled transaction in comparable circumstances.³¹

Comparability under the CUP method is particularly dependent upon the similarity of products and contractual terms among other things. Differences in geographic markets may also influence the reliability of the comparison under this method, particularly if they are material but cannot be reliably ascertained. Adjustments are therefore necessary to reflect any differences that would affect the price.

Applicability of CUP

Class of transactions	Reasons
Provision of software support and application management services	<p>As third parties in India do not provide similar services to the AEs of Indian Company, there is no possibility of applying an internal CUP for the purpose of comparability.</p> <p>External CUPs</p> <p>Further, due to lack of reliable data internally within Indian Company and external public domain, the application of the CUP as an appropriate method is not feasible; accordingly, the same has not been applied.</p>

Hence, CUP method has not been considered as the most appropriate method for determining the arm's length price ('ALP') of the transaction.

6.4.2. Resale price method

The Resale Price Method ('RPM') evaluates the arm's length nature of a controlled transaction by reference to the gross profit margin realised in a comparable uncontrolled transaction. The RPM is ordinarily appropriate in cases involving the purchase and resale of tangible goods / services in which the buyer/reseller does not add substantial value to the goods by physically altering them or by using marketing intangibles.

Under the RPM, comparability is primarily dependent upon the similarity of the functions performed and the risk assumed by the controlled and uncontrolled distributors and is less dependent on the similarity of the tangible goods bought and resold.

Indian Company India is a service provider, not a distributor, and therefore, RPM has not been considered as the most appropriate method for determination of the arm's length nature of the transaction in discussion.

6.4.3. Cost plus method

The Cost- Plus Method ('CPM') evaluates the arm's length nature of a controlled transaction by reference to the gross profit mark up (i.e., gross profit divided by direct and indirect costs) that is realised in comparable uncontrolled transactions. The CPM is ordinarily appropriate in two situations: i) the provision of services to a related party; and ii) the manufacture of tangible goods that are sold to a related party.

Under the CPM, comparability is primarily dependent upon the similarity of the functions performed and the risk assumed by the controlled and uncontrolled parties and is less dependent on the similarity of the services provided or the goods produced.

In case of provision of SWD services, similar to Indian Company India, though CPM may be appropriate, however as in a service industry the primary input for service provision is employees hence, it is applicable with a modification thus falling within the definition of TNMM. Thus, CPM is not considered as most appropriate method.

6.4.4. Profit split method

In general, the Profit Split Method ('PSM') evaluates whether the allocation of the combined profit or loss attributable to one or more controlled transactions is arm's length by reference to the relative value of each controlled taxpayer's contribution to that combined profit or loss. The profit split methods typically are applied where each party to the transaction under evaluation makes unique and valuable contributions and / or the operations of the parties to the transaction are highly integrated and cannot be evaluated on a separate basis.

Indian Company India does not own any non-routine intangibles and further the low risk operations of Indian Company India can be independently evaluated. Therefore, the PSM is not considered as the most appropriate method for determination of the arm's length nature of the transaction in discussion.

6.4.5. Transactional net margin method

The TNMM assesses the arm's length character of transfer prices in a controlled transaction by testing the profit results of one participant in the transaction. The TNMM examines the net profit³² relative to an appropriate base (e.g., costs, sales, assets) that a taxpayer realises from a controlled transaction (or transactions that are appropriate to aggregate....).³³

Under the TNMM, comparable transactions need to be broadly similar. Significant product diversity and some functional diversity between the controlled and uncontrolled parties are acceptable.

One strength of the TNMM is that PLIs (e.g., return on assets, operating income to sales, and possibly other measures of net profit) are less affected by transactional differences than is the case with price, as used in the CUP Method. PLIs also may be more tolerant to some functional differences between the controlled and uncontrolled transactions than gross profit margins. Differences in the functions performed between enterprises are often reflected in variations in operating expenses. Consequently, enterprises may have a wide range of gross profit margins but still earn broadly similar levels of net operating profit indicators.³⁴

Indian Company India is a contract service provider engaged in the provision of software Development services and Other IT Enables Services and is remunerated on a cost-plus based remuneration model. TNMM assesses the arm's length character of transfer prices in a controlled transaction (contract) by testing the profit results of the service provider. In view of the above, TNMM has been selected as a preferred method for determining the arm's length operating results of the provision of software support and Other IT Enables Services.

6.4.6. Other method

The 'Other method' for determination of the ALP in relation to international transaction shall be any method which takes into account the price which has been charged or paid, or would have been charged or paid, for the same or similar uncontrolled transaction, with or between non-associated enterprises, under similar circumstances, considering all the relevant facts.

'Other method' takes into account the 'price' of the international transaction vis-à-vis the same or similar uncontrolled transaction. The 'Other method' may be used for transactions which can be benchmarked using 'prices' (rather than margins).

Application of the most appropriate method

After reviewing all of the transfer pricing methods discussed, we concluded that, given the fact and circumstances, the TNMM provides the most reliable measure of an arm's length result for the international transaction of provision of software support and application management services.

Although the TNMM theoretically is based on transactional data, it recognises that no comparable data at such a transactional level is likely to exist. Further, in case the transactions are closely interlinked, the same can be aggregated under the TNMM.

6.4.7. Search for uncontrolled comparable and determination of ALP

The search for comparables was undertaken, keeping in mind, that Indian Company was primarily engaged in the provision of software development services. To perform this analysis, a proprietary transfer pricing application, Capitaline TP was used. For details about this application and its limitations and selection of time period, please refer Appendix C and D respectively. To comply with the requirements of contemporaneous documentation to exist by the specified date as per the Indian Regulations, the Company has conducted a benchmarking analysis using information in the database updated till April 2024, focusing on the financial results of companies having financial years ended during the period 1 April 2021 and 31 March 2024.

Based on the search process, 13 comparable companies / segments were arrived at.

S.No.	Names of the companies	Data Source	Weighted Average Unadjusted (PLI)	FY 202X-XX	FY 202X-XX	FY202X-XX
1	Rheal Software Ltd	CPL	2.36%	NA	3.71%	1.01%
2	Web Element Solutions Ltd	CPL	2.89%	NA	3.79%	1.99%
3	Bhilwara Infotechnology Ltd- Software & IT related Services	CPLS	2.98%	NA	3.43%	2.53%
4	RV Technologies Softwares Pvt Ltd	CPL	3.26%	NA	3.86%	2.66%
5	Infosense Technologies Pvt Ltd	CPL	3.55%	NA	3.69%	3.40%
6	Infomile Technolgies Pvt Ltd	CPL	7.34%	NA	6.87%	7.80%
7	Yudiz Solutions Ltd	CPL	14.94%	NA	13.94%	15.93%
8	Sasken Technologies Ltd	CPL	16.64%	NA	15.89%	17.39%
9	R Systems International Ltd	CPLS	17.39%	NA	15.79%	18.99%
10	NINtec Systems Ltd	CPL	18.50%	NA	17.50%	19.50%
11	Digital Mesh Softech (India) Pvt Ltd	CPL	27.04%	NA	22.36%	31.72%
12	CG - VAK Software & Exports Ltd	CPL	35.67%	NA	29.87%	41.47%
13	Tata Elxsi Ltd	CPLS	40.99%	NA	36.89%	45.09%
35th Percentile			3.55%			
Median			14.94%			
65th Percentile			17.39%			

The details of search for uncontrolled comparables and determination of ALP have been given in Appendix E. The analysis shows that the range of adjusted weighted average OP/TC of comparable companies is 3.55% to 17.39% with a median of 14.94%. Hence, prices of international transactions of Indian Company that achieve an OP/TC between 3.55% to 17.39% or are higher would meet the arm's length standard required under the Indian Regulations as per the third proviso to section 92C(2) of the Act read with Rule 10CA(4) of the Rules. The financial results of Indian Company provided to us (summarized in Appendix H) indicate that the Company has an OP/TC of 17.97% during the year ended 31 March 2024. This indicates that the international transactions of Indian Company were in accordance with the arm's length standard required under the Indian Regulations.

6.5. Other international transactions

Receivable

The value of the international transactions of the receivables is the opening balance of receivables as on 1 April 2023 as well as the receivables arising out of transactions mentioned in the notes of the audited financial statements undertaken during the year.

Indian Company India contends that the receivables represent amounts arising in the course of business. The impact of the receivables has been appropriately considered while determining the arm's length price of the underlying international transaction. Having regard to the same and economic and commercial considerations, Indian Company India contends that the same is consistent with the arm's length standard.

Payable

The value of the international transactions of the payables is the opening balance of payables as on 1 April 2023 as well as the payables arising out of transactions mentioned in the notes of the audited financial statements undertaken during the year.

Indian Company India contends that the payables represent amounts arising in the course of business. The impact of the payables has been appropriately considered while determining the arm's length price of the underlying international transaction. Also, having regard to the above, the economic and commercial considerations, and the provisions of section 92(3) of the Income-tax Act, 1961, Indian Company India contends that the same is consistent with the arm's length standard.

A3 ADVISORS LLP

1. Our Team.

Our Transfer Pricing Mentor



Mr. Ravi Bharadwaj is a distinguished tax and regulatory expert with over 18+ years of experience in taxation, transfer pricing, international tax, corporate taxation, and regulatory matters. His expertise spans advisory, litigation, representation, and compliance, making him a trusted advisor in the field. Having spent a significant portion of his professional journey with Ernst & Young (EY), one of the world's leading professional services firms, Mr. Bharadwaj has developed a diverse skill set in transfer pricing, international tax structuring, and regulatory frameworks. His advisory and litigation experience has positioned him as an authoritative voice in taxation and compliance.

Mr. Ravi Bharadwaj is a distinguished tax and regulatory expert with over 18+ years of experience in taxation, transfer pricing, international tax, corporate taxation, and regulatory matters. His expertise spans advisory, litigation, representation, and compliance, making him a trusted advisor in the field. Having spent a significant portion of his professional journey with Ernst & Young (EY), one of the world's leading professional services firms, Mr. Bharadwaj has developed a diverse skill set in transfer pricing, international tax structuring, and regulatory frameworks. His advisory and litigation experience has positioned him as an authoritative voice in taxation and compliance.

His proficiency in transfer pricing includes advisory, documentation, and representation, along with filing Bilateral and Unilateral Advance Pricing Agreements (APA). He has conducted global transfer pricing reviews for multinational enterprises (MNEs) and has played a key role in planning and implementing BEPS (Base Erosion and Profit Shifting) three-tier documentation. In the realm of international and corporate taxation, Mr. Bharadwaj specializes in inbound and outbound tax advisory, corporate tax structuring, and ensuring compliance with international tax laws.

He also possesses extensive expertise in regulatory and compliance matters, including FEMA, the Prevention of Money Laundering Act (PMLA), and the Benami Transactions (Prohibition) Act. His advisory services in financial regulation and compliance have been instrumental for businesses navigating complex regulatory frameworks. With an impressive track record in tax litigation, he has successfully represented over 1,000 cases before various Income Tax authorities, including the Commissioner of Income Tax (CIT) and the Income Tax Appellate Tribunal (ITAT).

Transfer Pricing Professionals



CA HEMANTH KOLACHANA
DIRECT TAX & TRANSFER PRICING

Hemant, a Chartered Accountant with 12+ years of experience, specializes in Direct Taxation, Statutory Audit, Due Diligence, and FEMA. He has worked with Big 4 firms, led the tax division of an IT company, and advised clients across Real Estate, Manufacturing, IT/ITES, Pharma, and FMCG. A speaker at ICAI and author of various articles, he is also passionate about teaching Income Tax and Auditing.



CA RAVITEJA PARINAM
DIRECT, INTERNATIONAL TAX, RISK ADVISORY & STATE INCENTIVES

Ravi, a Chartered Accountant with 12+ years of experience, specializes in Direct Taxation, Risk Advisory, and International Tax. He has advised clients across Pharmaceuticals, Manufacturing, Media, and IT/ITES, with prior roles in a Big 4 firm and the Pharma industry. An award-winning professional, he also specializes in tax litigation, FEMA, and state incentive DPRs.



CA PRASANTH VANGALAPUDI

TAXATION, TRANSFER PRICING & AUDIT

Prasanth, a Chartered Accountant with 5+ years of experience, specializes in Transfer Pricing, internal audits for Pharma, IT/ITeS, and Banks. He advises MNCs on transfer pricing compliance, documentation, and litigation, ensuring adherence to global tax regulations. His expertise also extends to broader tax compliance and regulatory matters.

Other Expert Professionals



CA AVINASH PATNANA

INDIRECT TAX, CUSTOMS & FTP

Avinash, a Chartered Accountant with 12+ years of experience, specializes in Indirect Tax, advising Indian and multinational companies. Previously with a Big 4 firm, he played a key role in India's GST rollout and trade incentives. A sought-after expert in tax advisory, litigation, and compliance, he is also a frequent ICAI speaker.



CA SWATI DOOGAR

ASSURANCE & BUSINESS VALUATION

Swati, a Chartered Accountant with 10+ years of experience, specializes in GST, Accounting, and Audits. Her expertise spans statutory, tax, internal, and bank audits, along with SEZ/STPI registrations and TDS compliance. Previously, she worked in a reputed bank and led the accounts division of a transport company.



CA PRITHVI KRISHNA P

GST & GOVERNMENT INCENTIVES

Prithvi Krishna, a Chartered Accountant with 6+ years of experience, specializes in government policies, Production Linked Incentives, state incentives, GST, and Customs. He has advised Indian and multinational firms in auto, textiles, and manufacturing. Previously with a Big 4 firm, he also holds a specialized GST certificate from ICAI.



CA MAYUR MEHTA

MERGERS & ACQUISITION

Mayur, a Chartered Accountant with 10+ years of tax and regulatory experience, specializes in M&A tax, succession planning, corporate & international tax, and regulatory matters (FEMA, SEBI). Previously with EY and KPMG, he has advised multinational and large Indian companies on transaction structuring, due diligence, and tax planning, including HNI investment structuring.



CA AKSHITA LOYA

TAXATION & AUDIT

Akshita Loya, a Chartered Accountant with 8+ years of experience, specializes in Tax Advisory, Compliance, and Risk Advisory. She has worked with MNCs, SMEs, and individuals, with a strong focus on the manufacturing sector. Previously with EY's Corporate & International Tax practice, she was recognized for exceptional client service.



CA VIGNESH SRIVASTAVA

INDIRECT TAX, CUSTOMS & FTP

A Chartered Accountant and Lawyer with 17+ years of experience in Indirect Taxes, he specializes in litigation, legal opinions, and GST advisory. After 14 years with a reputed consulting firm, he now advises clients across SEZs, EOUs, Real Estate, Infra, IT/ITES, Pharma, and services.



CA RAVI CHANDU PENUMUCHU

INDIRECT TAXATION, LITIGATION ADVISORY

Ravi Chandu, a Chartered Accountant, has been integral to the firm's growth since starting as an articled trainee. He specializes in GST, tax litigation, refunds, customs compliance, and Foreign Trade Policy. His expertise helps clients navigate complex tax and trade matters with tailored solutions. Committed to staying updated, he ensures top-notch guidance and support.



CA HARISH AITHA

INDIRECT TAXATION, VIRTUAL CFO

Harish Aitha, a Chartered Accountant, began his career with the firm and remains key to its success. He specializes in GST, tax disputes, refunds, customs compliance, and export incentives. His expertise in Foreign Trade Policy helps clients navigate complex tax and trade issues. Committed to professionalism, he delivers tailored solutions with excellence.



GAYATRI MAHALAKSHMI

Manager

Gayatri, a Semi-Qualified Chartered Accountant with 6+ years of experience, specializes in Accounts, Direct Taxation, Compliance, and Financial Reporting. She has expertise in GST, TDS, SEZ, FEMA, and tax litigation. Previously, she managed finance and taxation for a Diamond Manufacturing SEZ. Her strong advisory skills help clients navigate complex compliance requirements.



CA SURYA TEJA IPPILI

INCOME TAX & LITIGATION

Surya is a qualified Chartered Accountant with focused experience in Income Tax compliance, advisory, and litigation. He has handled numerous income tax litigation matters for a diverse clientele, including large corporations, MSMEs, and individual taxpayers. Surya has also been actively involved in conducting tax audits and supporting clients across various tax-related matters.



CMA PAVANI ALLAMPALLI

GOVERNMENT INCENTIVES & VIRTUAL CFO

Pavani is a qualified CMA with hands-on experience in costing, budgeting, and accounting for manufacturing and job work entities. She has worked on multiple project reports for multinational companies exploring investments, funding opportunities, and government land allotment applications. Pavani has also been actively involved in government incentive advisory, including eligibility assessments and end-to-end support in preparing and submitting incentive claims in line with applicable policy guidelines.



CA VIJAY JAGADEESH T

INDIRECT TAXATION - COMPLIANCES

Vijay Jagadeesh is a home-grown Chartered Accountant with 3 years of experience specializing in GST compliance and due diligence. His expertise lies in streamlining compliance processes through innovative dashboards, making complex regulatory requirements simple and efficient for clients. Vijay is known for conducting comprehensive GST audits that ensure strict regulatory adherence while mitigating potential risks.

Known for his thoroughness and analytical skills, Vijay has been instrumental in delivering effective, tailored solutions to clients often staying one step ahead of their needs. His proactive approach has further strengthened the firm's reputation for excellence in tax services



CA NIKHIL MADDI

RERA & TAXATION, DIRECTOR VIJAYAWADA OPERATIONS

Nikhil, a Chartered Accountant with 7 years of experience, specializes in Auditing, Assurance, GST, and RERA compliance. With a Big 4 and investment banking background, he has advised clients across various sectors. His expertise includes assurance, RERA compliance, and Internal Financial Controls. A speaker at trade forums, he is dedicated to client success.



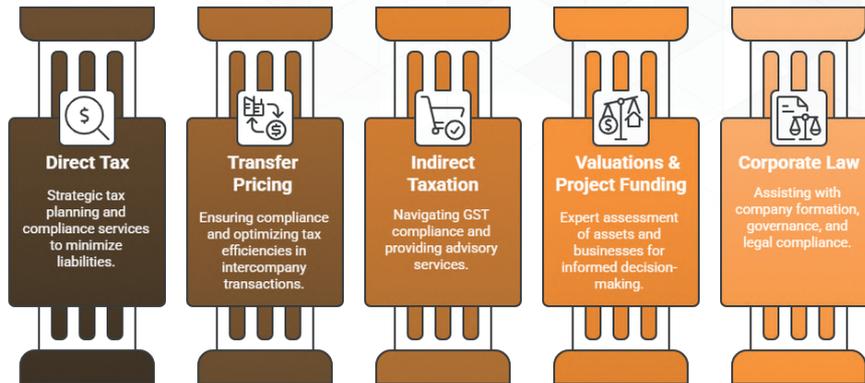
CS POOJA JHUNJHUNWALA

COMPANY SECRETARY

Pooja, a qualified CS, LLB, and Strategic Finance expert, has 12+ years of experience in Corporate Law, SEBI, FEMA, and NCLT. A Fellow of ICSI and Certified Independent Director, she specializes in corporate governance and compliance. As an NCLT Counsel Member, she provides expert legal, advisory, and secretarial services to businesses.

2. Our Service Offerings:

- **All in one advisor**
Assurance | Business | Financial | Legal | Regulatory | Tax
- **End-to-end support**
Conceptualization advisory | Implementation Support | Compliance assistance | Litigation representation
- **One stop for all services**
Transfer Pricing | GST | Income Tax | Valuations | Virtual CFO Services | Mergers & Acquisitions | Financial Reporting Advisory Services | Legal Services | Secretarial Services | Financial & Risk Advisory | Outsourcing Services.



3. Why choose us?

Adept in our field, A3 Advisors LLP stands as an entrepreneurial tax consulting firm, helmed by a dynamic team of young professionals, all of whom are Big 4 alumni. Unified in allegiance, Team A3 endeavours to construct a modern professional services organization focused on consultancy.

A3 Advisors offers tax, consulting, audit, and financial advisory services to clients across various industries, prioritizing the delivery of holistic solutions tailored to meet business objectives and navigate complex challenges while ensuring robustness, scalability, and sustainability from a tax, legal, and regulatory perspective.

All our partners and core staff at A3 Advisors hail from the Big 4 and possess extensive expertise in tax compliance, litigation, and controversy management within their respective domains. With a team of 75 professionals and counting, including 12 qualified Chartered Accountants, A3 Advisors boasts a combined professional experience exceeding 8 years.

Operating as a cross-functional tax firm, A3 Advisors conducts comprehensive analyses of tax issues from a 360-degree perspective, taking into account provisions from multiple tax laws to provide thorough solutions and offers tailored advice aligned with clients' commercial needs and capabilities.

Our firms' core capabilities and strengths include:

- a) Expertise and Experience.
- b) Holistic solutions tailored to meet clients' business objectives.
- c) Cross functional Capability.
- d) Qualified Team.
- e) Enhancing the firm's ability to tackle complex challenges effectively.
- f) Entrepreneurial Spirit.
- g) Client Centric Approach.
- h) Emphasis on Compliance and Risk Management.
- i) Strong Reputation and Track Record.
- j) Bird's eye view on pending litigations across the organization.
- k) Maintenance of itinerary of the upcoming hearings.
- l) Strategizing litigation using previous jurisprudence, data and insights.

Backed up by strong team of Counsels and Tax Advocates, Ex –Department officials with loads of knowledge on taxes and litigation

OUR TEAM



A3 ADVISORS LLP

ALLEGIANCE-ASTUTE-ADEPT

Plot no 24&25, Level 2 and 3, Beside
Pioneer World School, Kakatiya Hills,
Hyderabad 500033

Level 3 and 4, Kuppili Arcade,
Akkayapalem,
Visakhapatnam - 530016

4th Floor-MNR Arcade, Road,
Near Sub Register Office,
Sai Nagar, Kala Nagar,
Acharya Ranga Nagar, Vijayawada,
Andhra Pradesh 520010

Our Presence

Mumbai, New Delhi, Bangalore, Chennai

Phone: +91 9493888280 email: hemanth@a3advisors.in