FAQs

Doing Business in India

Transfer Pricing

1. What is the meaning of arm's length price?

Arm's length price is the price which is applied or proposed to be applied to transactions between persons other than the Associated Enterprises in uncontrolled conditions.

2. What are Associated Enterprises (AEs)?

Section 92A of the Income - tax Act, 1961 specifies that two or more enterprises become associated enterprises when one of them participates, directly or indirectly, or through one or more intermediaries, in the management or control or capital of the other enterprise(s). For further details, please access the following link.

3. What are the different types of methods which can be applied for computing arm's length price?

As per Section 92C of the Income - tax Act, 1961, the following methods can be used for computing arm's length price: a) Comparable Uncontrolled Price (CUP) Method b) Resale Price Method (RPM) c) Cost Plus Method (CPM) d) Profit Split Method (PSM) e) Transactional Net Margin Method (TNMM) f) Any Other Method

4. When are the taxpayers required to prepare Transfer Pricing (TP) Documentation as per Rule 10D of the Income - tax Rules, 1962?

Taxpayers indulging in any international or specified domestic transactions are required to maintain a set of documents specified in Rule 10D of the Income - tax Rules, 1962. The transfer pricing documentation shall be required if the value of international transactions exceeds INR 1 crore and specified domestic transactions exceed INR 20 crore in a financial year.

Copyright © 2026 Invest India. All Rights Reserved.

5. When are the taxpayers required to file accountant's report specified in Section 92E of the Income - tax Act, 1961?

All the taxpayers are mandatorily required to file an accountant's report prepared by an independent professional through Form No. 3CEB for all international transactions irrespective of the value of international transactions and specified domestic transactions if the value exceeds INR 20 crore in a financial year.

6. Which transaction is classified as “ international transaction ” ?

The term international transaction as defined under Section 92B of the Act as: Purchase, sale or lease of tangible or intangible property Provision of services Lending or borrowing of money or capital financing, including any type of long-term or short-term borrowing, lending or guarantee; purchase or sale of marketable securities or any type of advance, payments or deferred payment or receivable; or any other debt arising during the course of business A mutual agreement or arrangement for cost allocation or apportionment A transaction of business restructuring or reorganization Any other transaction having a bearing on the profits, income, losses or assets of such enterprises

7. When do the transfer pricing regulations apply to an enterprise?

An enterprise is required to comply with the transfer pricing regulations when: The taxpayer has entered into an international transaction or a specific domestic transaction (within India) With an associated enterprise outside India, (international transaction) or within India (specific domestic transaction)

8. Is a Liaison Office (LO) in India of Foreign corporation subject to TP Provisions?

The residential status of LO in India of an enterprise outside India is that of a “ non-resident ” for Indian tax purposes. Since the LO is not taxable in India as they do not indulge in income generating activities, transfer pricing provisions are not applicable for LO. However, if a LO constitutes a PE in India, it will be subject to tax in India and will be subject to an appropriate attribution of profit generated by the foreign enterprise from its operations in India.

9. Do the transfer pricing rules apply in respect of transactions between head office (HO) and a branch office/project office?

Copyright © 2026 Invest India. All Rights Reserved.

Where a foreign enterprise has a BO/PO in India, the BO/PO would constitute a non-resident for Indian tax purposes and a separate enterprise under Section 92F(iii) of the Act. Accordingly, the transaction between the BO/PO and the HO will constitute as an international transaction under section 92B of the Act and will be required to meet the arm ' s length criteria from an Indian transfer pricing perspective. For more information, click here.

10. What are the documents required to be maintained by a company while executing an international transaction?

Transfer pricing documentation requirements are provided under Section 92D of the Act and Rule 10D of the Income-tax Rules, 1962 (Rules). The categories of documentation required are: Ownership structure Profile of the multinational group Business description Nature and terms (including prices) of international transactions Description of functions performed, risks assumed and assets employed Record of any financial estimates Record of uncontrolled transaction with third parties and a comparability evaluation Description of methods considered Reasons for rejection of alternative methods Details of transfer pricing adjustments Any other information or data relating to the associated enterprise that may be relevant for determining the arm ' s-length price A list of additional optional documents is provided in Rule 10D(3). In addition, the taxpayer is required to obtain and furnish an Accountant ' s Certificate (Form 3CEB) regarding maintenance of documentation. This has to be filed irrespective of the transaction value.

11. Does transfer pricing documentation has to be prepared annually?

Transfer pricing documentation has to be prepared annually, as per the Indian Transfer Pricing regulations. Full transfer pricing documentation, including an update of the functional analysis and fresh economic analysis using contemporaneous data, must be maintained, in case the total value of international transaction is more than INR 10 million and/or aggregate value of specified domestic transactions exceed INR 200 million.

12. What is the materiality limits/threshold for preparing and maintaining transfer pricing (TP) documentation?

The annual TP documentation is required to be maintained if the aggregate value of all international transactions during the relevant financial year exceeds INR 10 million (approximately US$156,250) and/or specified domestic transactions during the relevant financial year exceed INR 200 million

Copyright © 2026 Invest India. All Rights Reserved.

(US$3,125 million). The economic analysis is required to be maintained to justify the arm ' s length character of the international transaction, irrespective of the transaction value threshold.

13. What are the different methods to calculate arm ' s length price?

The various methods to calculate the arm ' s length price with respect to an international/specified transaction are as under: Comparable uncontrolled price method (CUP) Resale price method (RPM) Cost plus method (CPM) Profit Split Method (PSM) Transactional net margin method (TNMM) Other Method as prescribed by the Board (CBDT)

14. Is there a requirement for a fresh benchmarking analysis every year vs roll-forward/ update of the financials?

A fresh benchmarking search needs to be conducted every year. According to Rule 10D(4), " The information and documents specified under [sub-rules (1), (2) and (2A)], should, as far as possible, be contemporaneous and should exist latest by the specified date referred to in clause (iv) of section 92F. "

15. Is there a statutory deadline for submission of transfer pricing documentation?

An accountant ' s report in Form 3CEB must be furnished along with the Income Tax Return, i.e., (on or before 30 November following the end of the financial year under consideration). With respect to the transfer pricing documentation, the taxpayer is required to maintain the same before furnishing Form 3CEB. However, there is no requirement of furnishing the transfer pricing documentation along with accountant ' s report/Form 3CEB at the time of filing tax return.

16. What are safe harbor rules under the Indian transfer pricing regulations?

Safe harbor rules is a mechanism under which in certain circumstances tax authorities accept the transfer prices declared by tax payer without undertaking detailed audit. The tax authorities have introduced rules prescribing procedure for adopting safe harbor, the transfer price to be adopted, the compliance procedures upon adoption of safe harbor and the circumstances in which a safe harbor adopted may be held to be invalid. The categories of international transactions covered under the safe harbor provisions include: Provision of software development services Provision of IT enabled services Provision of knowledge process outsourcing services Advancing of intra-group loans

Copyright © 2026 Invest India. All Rights Reserved.

Provision of corporate guarantee Provision of contract research and development services Manufacturing and export of auto components Receipt of low value adding intragroup services

17. Does Indian transfer pricing law have an Advance Pricing Agreement (APA) program?

APA is a binding agreement between the taxpayer and tax authority to determine in advance, a set of criteria that would govern the transfer prices for covered inter-company transactions for a fixed period of time. The APA regime has been introduced in India effective 01 July 2012. The APA rules provide an option for taxpayers to seek a unilateral, bilateral or multilateral APA. It can be valid for up to five years and additionally for a period of four consecutive previous years. The APA filing process includes an optional pre-filing submission, the filing of the APA request, negotiation of the APA, execution and monitoring. Taxpayers are required to prepare and file an annual compliance report for each year under the APA. It helps that taxpayer in attaining certainty on the transfer price adopted and assists in mitigating the risks of litigation for the period covered under APA.

18. What are the scenarios under which Form FC-TRS is required to be filed?

Form FC-TRS shall be required to be filed within sixty days of receipt/ remittance of funds or transfer of capital instruments whichever is earlier, under the following scenarios for transfer of capital instruments by way of sale: From a person resident outside India holding capital instruments in an Indian company on a repatriable basis to a person resident outside India holding capital instruments on a non-repatriable basis From a person resident outside India holding capital instruments in an Indian company on non-repatriable basis to a person resident outside India holding capital instruments on repatriable basis From a person resident outside India holding capital instruments in an Indian company on repatriable basis to a person resident in India From a person resident in India holding capital instruments in an Indian company to a person resident outside India holding capital instruments on repatriable basis By a person resident outside on a recognized stock exchange

19. What are the penal consequences for under-reporting or misreporting of income?

The penal consequences for non-compliance with Indian transfer pricing regulations are as follows in case of under-reporting or misreporting of income: A sum equal to 50% of the amount of tax payable on under-reported income A sum equal to 200% of the amount of tax payable on under-reported income where under-reported income is in consequence of any misreporting

Copyright © 2026 Invest India. All Rights Reserved.

20. What are the penal consequences for non-compliance with the Indian Transfer Pricing regulations?

In case of failure to maintain Transfer Pricing documentation, failure to report the transaction, maintenance or furnishing of incorrect information/document, there is a penalty of 2% of the value of each international/specified domestic transaction.

Copyright © 2026 Invest India. All Rights Reserved.