Handbook on Year-End Transfer Pricing Compliance Checklists

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

New Delhi

Handbook on Year-End Transfer Pricing Compliance Checklists

A Practical Guide to Form No. 3CEB, Transfer Pricing Documentation, Master File and Country-by-Country Reporting

Based on the Income-tax Act, 1961, as amended by the Finance Act, 2026

This Handbook has been prepared with reference to the law applicable for the Financial Year (FY) 2025-26 and covers the year-end transfer pricing compliance requirements, including Form No. 3CEB, Transfer Pricing Documentation, Master File and Country-by-Country Reporting. The Handbook will be updated periodically to reflect subsequent legislative and regulatory developments.

International Taxation Committee

The Institute of Chartered Accountants of India

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New Delhi

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Foreword

Businesses today operate across multiple jurisdictions through diverse and interconnected arrangements, presenting new challenges in ensuring transparency, consistency and certainty in tax positions. Transfer Pricing has emerged as one of the most significant areas of international taxation, driven by increasing cross-border transactions and heightened scrutiny by tax administrations worldwide. The growing presence of businesses across multiple jurisdictions, through diverse and interconnected arrangements, has further underscored the importance of ensuring transparency, consistency and certainty in tax positions.

In this evolving environment, robust frameworks for determining the appropriate allocation of income and costs across jurisdictions have assumed greater relevance, bringing transfer pricing into sharper focus. In India, the transfer pricing landscape has evolved considerably over the years through legislative amendments, judicial pronouncements and administrative guidance.

As businesses approach the close of their financial year, a comprehensive and systematic review of international transactions and other relevant arrangements assumes considerable importance. Such a review entails evaluating the nature and terms of transactions, assessing their arm's length implications, reviewing the adequacy of supporting documentation and ensuring compliance with other statutory obligations under the Income-tax Act, 1961. A structured year-end compliance process enables taxpayers to proactively address transfer pricing issues and mitigate the risk of tax adjustments, disputes and associated litigation.

Recognizing the need for practical guidance in this area, the International Taxation Committee of ICAI has brought out the "Handbook on Year-End Transfer Pricing Compliance Checklists". This publication provides a structured and practical checklist covering key transfer pricing compliances, documentation requirements and critical considerations that taxpayers and tax professionals should address as part of their year-end review.

I place on record my sincere appreciation to CA. Satish Kumar Gupta, Chairman and CA. Vishnu Kumar Agarwal, Vice-Chairman, International

Taxation Committee of ICAI, for their leadership and initiative in bringing out this timely and relevant publication.

I am confident that this Handbook will serve as a valuable guide for members and other stakeholders, enabling them to navigate the evolving transfer pricing landscape with greater clarity, preparedness and confidence, while contributing to the enhancement of the quality and effectiveness of transfer pricing compliance.

Warm regards,

CA. Prasanna Kumar D
President, ICAI

Preface

It gives me immense pleasure to present the **Handbook on Year-End Transfer Pricing Compliance Checklists**, brought out by the International Taxation Committee of The Institute of Chartered Accountants of India (ICAI).

Transfer Pricing (TP) has evolved into one of the most significant areas of international taxation, with increasing emphasis on robust documentation, transparency and timely compliance. Over the years, the scope and complexity of year-end TP compliances have expanded considerably, requiring taxpayers and professionals to navigate multiple statutory requirements relating to Form No. 3CEB, TP documentation, Master File and Country-by-Country Reporting (CbCR). In this evolving landscape, a practical and comprehensive reference guide assumes considerable importance.

This Handbook has been developed with the objective of providing members with a practical, structured and implementation-oriented reference on year-end TP compliance requirements. Rather than merely summarising the legal provisions, it seeks to assist professionals through practical guidance, comprehensive compliance checklists, documentation requirements, information gathering templates and key considerations that may be relevant while advising clients and undertaking TP compliance engagements. The Committee also intends to update this Handbook periodically to reflect legislative, judicial and administrative developments, thereby ensuring its continued relevance and usefulness for members in subsequent years.

The Handbook begins with a consolidated Year-End Transfer Pricing Compliance Calendar, providing a ready reference to the principal compliance requirements, their applicability, statutory timelines and consequences of non-compliance. It thereafter deals comprehensively with the Accountant's Report in Form No. 3CEB, covering the legal framework as well as the reporting requirements relating to international transactions, deemed international transactions and specified domestic transactions. The transaction-wise guidance and indicative documentation checklists seek to assist professionals in ensuring completeness, accuracy and consistency in reporting.

An important part of the Handbook is devoted to the Transfer Pricing Study Report, which provides the substantive basis for demonstrating compliance with the arm's length principle. The discussion extends from the documentation requirements under Rule 10D to understanding the business and industry, reviewing inter-company agreements and undertaking a proper functional analysis. It also covers the critical stages of economic analysis, including selection of the tested party and the most appropriate method, benchmarking, comparability analysis and determination of the arm's length outcome. The year-end and transaction-wise compliance checklists, together with a discussion of practical issues encountered in preparing contemporaneous documentation, add considerably to the utility of this part of the Handbook.

The Handbook also deals in detail with the Master File requirements, including their applicability, prescribed thresholds and filing requirements under Forms No. 3CEAA and 3CEAB. It explains the information required in relation to the organisational structure, business operations, intangible assets, financial activities and financial and tax position of the international group. Practical scenarios, documentation and retention standards, and significant compliance risk areas have also been addressed so that members may approach Master File compliance in a systematic and well-documented manner.

We extend our sincere gratitude to **CA. Prasanna Kumar D, President, ICAI, and CA. Mangesh Pandurang Kinare, Vice-President, ICAI**, for their continued guidance and encouragement in furthering the initiatives of the Committee.

We place on record our appreciation for the dedicated efforts of the contributors **CA. Praneeth Narahari, CA. Rishabh Agarwal, CA. Lalit Attal, CA. Anant Bhatia, CA. Nikhilesh Cacarla, CA. Naman Shrimal, CA. Sabareesh Pulaparthi, CA. Kriti Chawla** whose extensive expertise, insightful guidance, and valuable inputs have greatly enriched the content and enhanced its practical relevance. Their dedication and commitment to excellence have been instrumental in ensuring the quality of this publication. We express our heartfelt gratitude for their significant support and contribution. We are thankful to **Mr. S. P. Singh (Ex-IRS)** for his review and his valuable inputs.

Our special thanks go to all Committee members: CA. Jay Chhaira, CA. Umesh Ramnarayan Sharma, CA. Vishal Doshi, CA. Sridhar Muppala, CA. Sripriya Kumar, CA. Sanjib Sanghi, CA. Gyan Chandra Misra, CA. (Dr.) Rohit Ruwatia Agarwal, CA. Hans Raj Chugh, CA. Rajesh Sharma, CA. Sanjay Kumar

Agarwal, Shashi Kant Gupta/ Co-Opted Members/ Invitees/ Experts to the committee for their valuable involvement and support.

We acknowledge the efforts of CA. Rohit Kumar, Secretary, International Taxation Committee, CA. Prachi Jain, Project Associate, CA. Manish Goyal, CA Professional and other members of the Secretariat of the Committee in efficiently coordinating the work and providing essential secretarial assistance.

I trust that this Handbook will prove to be a valuable reference for members in efficiently navigating year-end transfer pricing compliance requirements and in further strengthening the quality and consistency of professional services in the field of transfer pricing.

With best wishes.

CA. Satish Kumar Gupta
Chairman
International Taxation Committee,
ICAI

CA. Vishnu Kumar Agarwal,
Vice Chairman
International Taxation Committee,
ICAI

Place: New Delhi

Date: September 2026

Contents

Abbreviations

Abbreviation	Full Form
AE	Associated Enterprise
ALP	Arm's Length Price
APA	Advance Pricing Agreement
BEPS	Base Erosion and Profit Shifting
CbCR	Country-by-Country Report / Country-by-Country Reporting
CBDT	Central Board of Direct Taxes
CE	Constituent Entity
CFS	Consolidated Financial Statements
CPM	Cost Plus Method
CUP	Comparable Uncontrolled Price Method
DEMPE	Development, Enhancement, Maintenance, Protection and Exploitation (of Intangibles)
DRP	Dispute Resolution Panel
FAR	Functions, Assets and Risks
GloBE	Global Anti-Base Erosion
ITAT	Income Tax Appellate Tribunal
MAP	Mutual Agreement Procedure
MNE	Multinational Enterprise
MAM	Most Appropriate Method
OECD	Organisation for Economic Co-operation and Development
OECD TP Guidelines	OECD Transfer Pricing Guidelines for Multinationals and Tax Administrations, January 2022

PAN	Permanent Account Number
PE	Permanent Establishment
PLI	Profit Level Indicator
PSM	Profit Split Method
R&D	Research and Development
RPM	Resale Price Method
SDT	Specified Domestic Transaction
TP	Transfer Pricing
TNMM	Transactional Net Margin Method
the Act	Income-tax Act, 1961
the Rules	Income-tax Rules, 1962
UPE	Ultimate Parent Entity

Introduction

Transfer Pricing (TP) has emerged as one of the most significant and dynamic areas of international taxation. With increasing cross-border transactions, greater emphasis on transparency, and evolving domestic and international regulatory frameworks, taxpayers are expected to maintain robust TP documentation and comply with multiple statutory reporting requirements within prescribed timelines. In India, year-end TP compliance extends beyond the filing of the Accountant's Report in Form No. 3CEB and encompasses the maintenance of contemporaneous TP documentation, preparation and filing of the Master File and Country-by-Country Reporting (CbCR), wherever applicable.

Given the breadth and complexity of these compliance requirements, tax professionals are often required to coordinate with multiple stakeholders, gather extensive information, review legal and commercial documentation, evaluate functional and financial information, and ensure consistency across various TP compliance obligations. A structured and comprehensive compliance approach is therefore essential to facilitate timely and accurate reporting while minimising the risk of omissions, inconsistencies and potential disputes.

Recognising this practical need, the International Taxation Committee of The Institute of Chartered Accountants of India (ICAI) has developed this Handbook on Year-End Transfer Pricing Compliance Checklists as a practical reference for members and other stakeholders involved in TP compliance engagements.

The Handbook seeks to provide a structured roadmap for year-end TP compliances through practical guidance, comprehensive compliance checklists, documentation requirements, information gathering templates and transaction-specific considerations. It covers the key compliance requirements relating to:

- Accountant's Report in Form No. 3CEB;
- Contemporaneous Transfer Pricing Documentation;

- Master File; and
- Country-by-Country Reporting (CbCR).

The objective of this Handbook is not to reproduce the provisions of the Income-tax Act, 1961, the Income-tax Rules, 1962 or other regulatory guidance. Instead, it complements the statutory framework by providing a practical implementation guide based on professional experience and industry practices, enabling members to plan, execute and review TP compliance assignments in a systematic and consistent manner.

The contents of this Handbook have been prepared with reference to the law as applicable for the Financial Year (FY) 2025-26, incorporating amendments made up to the Finance Act, 2026. While every effort has been made to ensure technical accuracy and practical relevance, readers are advised to refer to the applicable provisions of the law, judicial precedents, notifications, circulars and other regulatory guidance while addressing specific factual situations.

It is hoped that this Handbook will serve as a practical companion for chartered accountants, tax professionals, industry stakeholders and students by promoting greater consistency, efficiency and quality in the discharge of year-end TP compliance responsibilities.

Chapter 1
Year-End Transfer Pricing Compliance Calendar

1.1 Overview

Transfer Pricing (TP) compliance involves multiple statutory obligations that extend beyond the filing of the Accountant's Report in Form No. 3CEB. Depending on the nature and scale of international transactions, taxpayers may also be required to maintain contemporaneous TP documentation, furnish the Master File and comply with Country-by-Country Reporting (CbCR) requirements within the prescribed timelines.

Given the multiple compliance requirements, varying applicability thresholds and different statutory due dates, taxpayers and tax professionals should adopt a structured approach towards planning and monitoring year-end TP compliances. Timely identification of applicable compliances and proactive collection of the requisite information can significantly reduce compliance risks and facilitate accurate and timely reporting.

The following Compliance Calendar provides a consolidated overview of the key year-end TP compliance requirements applicable for the Financial Year (FY) 2025-26 (relevant to Assessment Year (AY) 2026-27). It summarises the applicability thresholds, statutory due dates and the key consequences of non-compliance under the Income-tax Act, 1961. The calendar is intended to serve as a quick reference guide for tax professionals and taxpayers while planning and monitoring their year-end TP compliance obligations.

Note: The due dates indicated below are based on the statutory due dates applicable as on the date of publication of this Handbook. Readers should also consider any extensions or modifications notified by the Central Board of Direct Taxes (CBDT), wherever applicable.

1.2 Year-End TP Compliance Calendar - FY 2025-26 (AY 2026-27)

Compliance Requirement	Relevant Provision	Applicability	Due Date	Consequences of Non-compliance
Accountant's Report – Form No. 3CEB	Section 92E read with Rule 10E	Applicable where: • International Transactions are undertaken with one or more Associated Enterprises (AEs), irrespective of the transaction value; or • Specified Domestic Transactions (SDTs) exceeding ₹20 crore are undertaken with AEs, subject to section 92BA.	31 October 2026(One month prior to the due date for filing the return of income)	Penalty of ₹1,00,000 under section 271BA.
Maintenance of TP	Section 92D read with Rule 10D	Applicable where the aggregate	Documentation should be maintained	Two defaults are

Documentation		value of International Transactions exceeds ₹1 crore or SDTs exceed ₹20 crore during the financial year.	contemporaneously and should be in place by the due date for furnishing Form No. 3CEB / return of income, as applicable.	separately covered: • **Failure to keep and maintain prescribed TP documentation**: penalty under section 271AA(1) equal to 2% of the value of each international transaction or specified domestic transaction. • **Failure to furnish information/documents requisitioned under section 92D(3):** penalty under section 271G equal to 2% of

				the value of each international transaction or specified domestic transaction, subject to section 273B.
Master File – Form No. 3CEAA (Part A)	Section 92D(4) read with Rule 10DA	Applicable to every constituent entity of an International Group entering into an International Transaction during the financial year.	30 November 2026	Penalty of ₹5,00,000 under section 271AA(2).
Master File – Form No. 3CEAA (Part B)	Section 92D(4) read with Rule 10DA	Applicable where: • Consolidated Group Revenue exceeds ₹500 crore; and • Aggregate value of International Transactions exceeds	30 November 2026	Penalty of ₹5,00,000 under section 271AA(2).

		₹50 crore, or International Transactions relating to intangible property exceed ₹10 crore.		
Master File Intimation – Form No. 3CEAB	Section 92D(4) read with Rule 10DA	Applicable where more than one constituent entity of the International Group is resident in India and the Group is required to furnish the Master File.	31 October 2026	Penalty provisions under section 271AA(2), where applicable.
Country-by-Country Report (CbCR) – Form No. 3CEAD	Section 286(2)/(4) read with Rule 10DB	Applicable where the consolidated group revenue of the International Group for the preceding accounting year exceeds ₹6,400 crore, subject to	Within 12 months from the end of the reporting accounting year. Illustration: 31 March 2027 (where the accounting year ends on 31 March 2026).	Penalty under section 271GB, including: • ₹5,00,000 for furnishing inaccurate information; and • ₹5,000/₹15,000/₹50,000 per

		section 286. Where the Parent Entity or Alternate Reporting Entity files the CbCR in a jurisdiction having an effective automatic exchange arrangement with India, filing in India may not be required.		day, as applicable, for failure to furnish the CbCR within the prescribed time.
CbCR Notification – Form No. 3CEAC	Section 286(1) read with Rule 10DB	Applicable where the Parent Entity or Alternate Reporting Entity is furnishing the CbCR outside India and the Indian constituent entity is required to notify the prescribed authority regarding the reporting entity.	Within 10 months from the end of the reporting accounting year. Illustration: 31 October 2026 (where the accounting year ends on 31 December 2025).	Penalty provisions under section 271GB, where applicable.

Intimation by Designated Constituent Entity – Form No. 3CEAE	Section 286(4) read with Rule 10DB(5)	Where multiple constituent entities of an international group are resident in India and one such entity is designated to furnish the CbCR on behalf of all Indian constituent entities.	No specific due date prescribed under the Act or Rules.	No specific penalty prescribed for failure to furnish Form No. 3CEAE.

Chapter 2

Accountant's Report in Form No. 3CEB

2.1 Background

Multinational Enterprises (MNEs) and domestic enterprises often undertake transactions with their Associated Enterprises (AEs). Since such transactions are entered into between related parties, there exists a possibility that they may not always be priced in a manner consistent with comparable uncontrolled transactions undertaken between independent enterprises. Accordingly, the TP provisions under the Income-tax Act, 1961 (the Act) require that international transactions and specified domestic transactions (SDTs), wherever applicable, comply with the arm's length principle.

To facilitate compliance with these provisions, the Act requires every person entering into an international transaction or specified domestic transaction, where applicable, to obtain and furnish an Accountant's Report in Form No. 3CEB, duly certified by a Chartered Accountant. In addition, taxpayers are required to maintain contemporaneous TP Documentation under section 92D of the Act read with Rule 10D of the Income-tax Rules, 1962 (the Rules), documenting the nature of the transactions, functional analysis, economic analysis, selection of the most appropriate method, benchmarking analysis and other prescribed information supporting the arm's length nature of such transactions.

The Accountant's Report and the underlying TP Documentation together constitute the cornerstone of India's TP compliance framework. While Form No. 3CEB serves as the prescribed statutory reporting mechanism, the contemporaneous TP Documentation provides the technical basis and supporting evidence for demonstrating that the international transactions and specified domestic transactions have been undertaken at arm's length.

2.2 Legal framework

The TP provisions in India are contained in Chapter X of the Act, comprising sections 92 to 92F. The procedural, documentation and reporting requirements are prescribed under Rule 10A onwards of the Rules.

The statutory framework governing the furnishing of the Accountant's Report in Form No. 3CEB is primarily contained in section 92E of the Act read with Rule 10E of the Rules. A brief summary of the relevant provisions is provided below.

Relevant provision	Requirement
Section 92E of ITA 1961	Every person entering into international transaction or specified domestic transaction shall obtain a report from an accountant and furnish such report on or before the specified date in the prescribed form duly signed and verified in the prescribed manner by such accountant and setting forth such particulars as may be prescribed.
Rule 10E of IT Rules 1962	The report from an accountant required to be furnished under section 92E by every person who has entered into an international transaction or a specified domestic transaction during a previous year shall be in Form No. 3CEB and be verified in the manner indicated therein.

The Accountant's Report in Form No. 3CEB is required to be furnished on or before 31 October immediately following the relevant previous year, unless the due date is extended by the Central Board of Direct Taxes (CBDT).

2.3 Requirement to Furnish Form No. 3CEB

The obligation to furnish Form No. 3CEB arises where a person has entered into an international transaction or a specified domestic transaction during the relevant previous year. Accordingly, every such person is required to obtain the Accountant's Report in Form No. 3CEB and furnish it in accordance with the provisions of section 92E of the Act read with Rule 10E of the Rules.

The reporting requirement applies irrespective of the number, nature or value of the international transactions undertaken during the previous year. In the case of specified domestic transactions, however, Form No. 3CEB is required only where the aggregate value of such transactions exceeds the prescribed threshold under the Act.

2.4 Contents of Form No. 3CEB

Form No. 3CEB consists of an accountant's certificate followed by three reporting sections, namely Part A, Part B and Part C. While Part A captures the general particulars of the reporting entity, Part B requires disclosure of international transactions and deemed international transactions, and Part C covers the reporting of SDTs.

The broad structure of Form No. 3CEB is summarised below:

- **Accountant's Certificate**
- **Part A (Clauses 1 to 9):** General particulars of the reporting entity
- **Part B (Clauses 10 to 20):** Particulars of international transactions and deemed international transactions
- **Part C (Clauses 21 to 26):** Particulars of SDTs

2.4.1 Clauses relating to international transactions/ deemed international transactions

The reporting requirements under Part B of Form No. 3CEB are broadly aligned with the definition of an "international transaction" contained in section 92B of the Act. Accordingly, the nature and classification of transactions required to be reported in Form No. 3CEB are largely derived from the statutory scope of an international transaction prescribed under the Act.

The Explanation to section 92B provides that the expression "international transaction" includes the following categories of transactions:

(a) *the purchase, sale, transfer, lease or use of tangible property including building, transportation vehicle, machinery, eq uipment, tools, plant, furniture, commodity or any other article, product or thing;*

(b) *the purchase, sale, transfer, lease or use of intangible property, including the transfer of ownership or the provision of use of rights regarding land use, copyrights, patents, trademarks, licenses, franchises, customer list, marketing channel, brand, commercial secret, know-how, industrial property right, exterior design or practical and new design or any other business or commercial rights of similar nature;*

(c) *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;*

(d) *provision of services, including provision of market research, market development, marketing management, administration, technical*

service, repairs, design, consultation, agency, scientific research, legal or accounting service;

(e) a transaction of business restructuring or reorganization, entered into by an enterprise with an associated enterprise, irrespective of the fact that it has bearing on the profit, income, losses or assets of such enterprises at the time of the transaction or at any future date;

Accordingly, the reporting clauses contained in Part B (Clauses 10 to 20) broadly correspond to the above categories of international transactions. Over the years, Form No. 3CEB has also been amended to incorporate additional reporting requirements to align with legislative amendments and evolving TP regulations.

Clause 10 - Details of AEs

Clause 10 requires reporting of the details of each AE with whom the assessee has entered into international transactions during the relevant previous year. The particulars to be reported include the name of the AE, the nature of the relationship with the AE as referred to in section 92A(2) of the Act and a brief description of the business carried on by the AE. The information reported under this clause forms the basis for reporting the international transactions covered under the subsequent clauses of Form No. 3CEB. Accordingly, taxpayers should ensure that all AEs with whom international transactions have been undertaken during the relevant previous year are appropriately disclosed under this clause.

Indicative Checklist of Information and Documentation

Before identifying an enterprise as an Associated Enterprise (AE) and reporting the particulars under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Updated group structure depicting all domestic and overseas group entities.
- Shareholding pattern and ownership structure evidencing direct and indirect participation in the capital of the enterprises.
- List of directors, key managerial personnel and governing board members of the relevant entities to evaluate management and control relationships.

- Audited financial statements, including the balance sheet and statement of profit and loss, wherever relevant for evaluating the thresholds prescribed under section 92A(2) (such as loans, guarantees or other financial relationships).
- Copies of shareholder agreements, joint venture agreements, inter-company agreements or other legal documents evidencing the relationship between the enterprises.
- Documentation supporting other forms of control or dependency, such as technology licence agreements, exclusive supply arrangements, distribution agreements or other commercial arrangements, wherever applicable.
- Name, registered address, country of incorporation/residence, Tax Identification Number (TIN) or other unique tax identifier of each AE, together with documentary evidence supporting the identification particulars.
- Brief description of the principal business activities carried on by each AE.
- Mapping of each international transaction to the relevant AE to ensure completeness and consistency of reporting across the subsequent clauses of Form No. 3CEB.
- Details of any additions, cessations or restructuring of AEs during the relevant previous year and the corresponding impact on the reportable international transactions.

Clause 11A - Purchase/Sale of Raw Materials, Consumables or Other Supplies

Clause 11A requires reporting of international transactions relating to the purchase or sale of raw materials, consumables or any other supplies for assembling, processing or manufacturing goods or articles from or to an AE. The clause requires disclosure of the AE, nature of the transaction, description and quantity of the goods, transaction value as per the books of account, value computed having regard to the ALP, the MAM adopted under section 92C and observations or remarks, if any.

Indicative Checklist of Information and Documentation

Before reporting the transaction under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Executed inter-company purchase/supply agreements, purchase orders and other commercial agreements governing the transaction.
- Purchase ledgers, sales ledgers and related party ledger extracts supporting the transaction values reported in Form No. 3CEB.
- Purchase invoices, sales invoices, debit notes, credit notes and other supporting documents evidencing the transactions.
- Inventory records, stock registers and quantitative reconciliation supporting the description and quantity of raw materials, consumables or other supplies reported under this clause.
- Appropriate categorisation of the items transacted as raw materials, consumables or other supplies together with supporting product descriptions or stock codes, wherever maintained.
- Shipping documents, including bills of lading, airway bills, goods receipt notes, delivery challans and bills of entry/shipping bills, wherever applicable.
- Details of goods in transit at the year-end together with supporting documentation evidencing the accounting recognition of such transactions.
- Details of any free-of-cost materials or supplies received from or provided to an AE together with the basis adopted for their TP treatment and reporting.
- Benchmarking documentation supporting the selected MAM, including comparable uncontrolled transactions, comparable company analysis, external market quotations, cost build-up workings or other relevant documentation, as applicable.
- Working papers supporting the computation of the transaction value as per the books of account and the value computed having regard to the ALP.
- Customs documentation, including import/export declarations and customs valuation records, wherever applicable.

- Detailed workings supporting any aggregation adopted for reporting voluminous transactions or multiple stock keeping units (SKUs).
- Reconciliation of the quantities and transaction values reported under this clause with the purchase and sales ledgers, audited financial statements, related party disclosures, tax audit report, cost audit report (where applicable) and TP Documentation.
- Supporting documentation for any observations or remarks reported in Form No. 3CEB.

Clause 11B - Purchase/Sale of Traded or Finished Goods

Clause 11B requires reporting of international transactions relating to the purchase or sale of traded or finished goods with an AE. The particulars required are similar to Clause 11A and include details of the AE, nature and description of the transaction, quantity, transaction value as per the books of account, value computed having regard to the ALP, the MAM adopted under section 92C and observations or remarks, if any.

Indicative Checklist of Information and Documentation

Before reporting the transaction under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Executed inter-company purchase/sale agreements, distribution agreements, reseller agreements and other commercial agreements governing the transaction.
- Purchase ledgers, sales ledgers and related party ledger extracts supporting the transaction values reported in Form No. 3CEB.
- Purchase invoices, sales invoices, debit notes, credit notes and other supporting documents evidencing the transactions.
- Inventory records, stock registers and quantitative reconciliation supporting the description and quantity of traded or finished goods reported under this clause.
- Appropriate categorisation and product-wise description of the traded or finished goods together with supporting product catalogues, stock codes or item masters, wherever maintained.

- Shipping documents, including bills of lading, airway bills, goods receipt notes, delivery challans and bills of entry/shipping bills, wherever applicable.
- Details of goods in transit at the year-end together with supporting documentation evidencing the accounting recognition of such transactions.
- Details of any free-of-cost goods received from or supplied to an AE together with the basis adopted for their TP treatment and reporting.
- Benchmarking documentation supporting the selected MAM, including comparable uncontrolled transactions, gross margin analysis, comparable company analysis, external market quotations or other relevant documentation, as applicable.
- Working papers supporting the computation of the transaction value as per the books of account and the value computed having regard to the ALP.
- Customs documentation, including import/export declarations and customs valuation records, wherever applicable.
- Detailed workings supporting any aggregation adopted for reporting voluminous transactions or multiple stock keeping units (SKUs).
- Reconciliation of the quantities and transaction values reported under this clause with the purchase and sales ledgers, audited financial statements, related party disclosures, tax audit report, cost audit report (where applicable) and TP Documentation.
- Supporting documentation for any observations or remarks reported in Form No. 3CEB.

Clause 11C - Other Tangible Property

Clause 11C requires reporting of international transactions relating to the purchase, sale, transfer, lease or use of any other tangible property, including transactions referred to in Explanation (i)(a) to section 92B of the Act. The reporting requirements broadly mirror those prescribed under Clauses 11A and 11B.

Indicative Checklist of Information and Documentation

Before reporting the transaction under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Executed purchase, sale, lease, asset transfer or other inter-company agreements governing the transaction.
- Fixed asset register and asset schedules identifying the assets acquired, transferred, leased or made available for use.
- Purchase invoices, sale invoices, lease invoices, debit notes, credit notes and other supporting documents evidencing the transaction.
- Details of the asset, including description, location, identification number (where applicable), date of acquisition, date of transfer and condition of the asset (new or used).
- Independent valuation reports, technical valuation certificates, market quotations or other supporting documentation substantiating the arm's length value of the asset, wherever applicable.
- Customs documentation, including bills of entry, shipping bills and customs valuation records, in case of imported assets.
- Capitalisation workings supporting the cost of the asset, including directly attributable costs capitalised in accordance with the applicable accounting standards.
- Depreciation schedules and fixed asset movement schedules supporting the accounting treatment of the transaction.
- Details of assets classified as capital work-in-progress (CWIP), together with supporting documentation evidencing the stage of completion and accounting treatment.
- Details of any assets transferred, leased or made available for use without consideration, together with the basis adopted for their TP treatment and reporting.
- Benchmarking documentation supporting the selected MAM, including comparable uncontrolled transactions, valuation reports, market quotations or other relevant documentation, as applicable.

- Working papers supporting the computation of the transaction value as per the books of account and the value computed having regard to the ALP.
- Reconciliation of the transaction values reported under this clause with the fixed asset register, general ledger, audited financial statements and TP Documentation.
- Supporting documentation for any observations or remarks reported in Form No. 3CEB.

Clause 12 - Intangible Property

Clause 12 requires reporting of international transactions relating to the purchase, sale, transfer, lease or use of intangible property, including transactions referred to in Explanation (i)(b) to section 92B of the Act. The clause requires disclosure of the AE, description of the intangible property, nature of the transaction, transaction value, value computed having regard to the ALP, the MAM adopted under section 92C and observations or remarks, if any.

Indicative Checklist of Information and Documentation

Before reporting the transaction under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Executed licence agreements, royalty agreements, technology transfer agreements, trademark or brand licence agreements, know-how agreements, assignment agreements or other commercial agreements governing the transaction.
- Description of the intangible property together with supporting documentation evidencing the nature of the rights transferred, licensed or otherwise made available.
- Details of the legal ownership of the intangible property, including registration certificates, intellectual property filings or other ownership records, wherever applicable.
- Documentation evidencing the DEMPE (Development, Enhancement, Maintenance, Protection and Exploitation) functions performed, assets employed and risks assumed by the respective AEs, wherever relevant.

- Royalty workings or other consideration computation sheets, including the basis of charge (e.g., percentage of sales, revenue, production or any other measurable base), together with supporting calculations.
- Sales reports, production records or other documents supporting the royalty base adopted under the agreement, wherever applicable.
- Independent valuation reports, technical valuation reports or other supporting documentation substantiating the arm's length value of the intangible property, particularly in case of transfers or assignments.
- Benchmarking documentation supporting the selected MAM, including comparable licence agreements, comparable uncontrolled transactions, valuation reports, market data or other relevant documentation, as applicable.
- Working papers supporting the computation of the transaction value as per the books of account and the value computed having regard to the ALP.
- Accounting records, general ledger extracts, invoices, debit notes, credit notes and related party ledger extracts supporting the transaction values reported in Form No. 3CEB.
- Details of any cost-sharing arrangements, cost contribution arrangements or reimbursement arrangements relating to the development, enhancement or exploitation of the intangible property, wherever applicable.
- Corresponding inter-company invoices and withholding tax documentation, wherever applicable.
- Reconciliation of the transaction values reported under this clause with the audited financial statements, related party disclosures and TP Documentation.
- Supporting documentation for any observations or remarks reported in Form No. 3CEB.

Clause 13 - Provision of Services

Clause 13 requires reporting of international transactions relating to the provision or receipt of services, including transactions referred to in Explanation (i)(d) to section 92B of the Act. The disclosure includes the AE, type and description of the service, transaction value as per the books of account, value computed having regard to the ALP, the MAM adopted under section 92C and observations or remarks, if any.

Indicative Checklist of Information and Documentation

Before reporting the transaction under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Executed inter-company service agreements, Statements of Work (SoWs), work orders, change requests and other commercial agreements governing the services.
- Detailed description of the nature and scope of the services together with supporting documentation evidencing the characterisation of the services.
- Details of the personnel involved in rendering the services, including their functional profiles, roles, responsibilities and time devoted, wherever relevant.
- Documentary evidence demonstrating the actual rendition, receipt and benefit derived from the services, such as emails, reports, deliverables, meeting minutes, presentations, project documentation, timesheets, internal approvals, business case papers, performance reports or other contemporaneous records.
- Details of the global or regional cost pool relating to the services together with the basis of compilation.
- Cost pool workings identifying direct costs, indirect costs and the overall cost base considered for charging the services.
- Cost allocation workings, including the allocation methodology, allocation keys and supporting computations.
- Computation of the service consideration, including the underlying cost base, mark-up computations and supporting calculations, together with reconciliation to the inter-company agreement.
- Inter-company invoices, debit notes, credit notes and related party ledger extracts supporting the transaction values reported in Form No. 3CEB.

- Benchmarking documentation supporting the selected MAM, together with the computation of the ALP.
- Working papers supporting the computation of the transaction value as per the books of account and the value computed having regard to the ALP.
- Details of any services rendered or received without consideration, together with the basis adopted for their TP treatment and reporting, wherever applicable.
- Reconciliation of the transaction values reported under this clause with the audited financial statements, related party disclosures and TP Documentation.
- Supporting documentation for any observations or remarks reported in Form No. 3CEB.

Clause 14 - Lending or Borrowing of Money

Clause 14 requires reporting of international transactions relating to lending or borrowing of money, including advances, payments, deferred payments, receivables, non-convertible preference shares, non-convertible debentures or any other debt arising during the course of business, as referred to in Explanation (i)(c) to section 92B of the Act. The disclosure includes the AE, nature of the financing arrangement, transaction value, rate of interest, value computed having regard to the ALP, the MAM adopted under section 92C and observations or remarks, if any.

Indicative Checklist of Information and Documentation

Before reporting the transaction under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Executed loan agreements, facility agreements, debenture subscription agreements, financing agreements and other commercial agreements governing the financing arrangement.
- Board resolutions, shareholder approvals and other corporate authorisations relating to the financing transaction, wherever applicable.
- Details of the key terms of the financing arrangement, including the amount (quantum), currency, tenure, repayment terms, interest rate, security, guarantees, covenants and other material terms.

- Documentation supporting the commercial rationale and actual nature of the financing arrangement, including internal financing policies, treasury policies, funding approvals and other contemporaneous records.
- Analysis supporting the characterisation of the instrument as debt, including the terms of the instrument and supporting documentation distinguishing it from equity, wherever relevant.
- Loan account statements, bank advices, fund flow statements, repayment schedules and interest payment schedules supporting the financing transaction.
- Interest computation workings, including the basis of computation, interest accruals, repayments and outstanding balances.
- Benchmarking documentation supporting the selected MAM, including credit rating analysis, comparable loan transactions, market interest rates, yield curves, bond yields or other relevant financial benchmarks, as applicable.
- Working papers supporting the computation of the transaction value as per the books of account and the value computed having regard to the ALP.
- General ledger extracts, related party ledger extracts and reconciliation of the financing transaction with the audited financial statements and TP Documentation.
- Corresponding inter-company invoices, debit notes, credit notes and withholding tax documentation, wherever applicable.
- Supporting documentation for any observations or remarks reported in Form No. 3CEB.

Clause 15 - Guarantees

Clause 15 requires reporting of international transactions in the nature of guarantees provided to or received from an AE. The disclosure includes the AE, nature of the guarantee, transaction value, value computed having regard to the ALP, the MAM adopted under section 92C and observations or remarks, if any.

Indicative Checklist of Information and Documentation

Before reporting the transaction under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Executed corporate guarantee agreements, bank guarantee agreements, indemnity agreements or other legal documents governing the guarantee arrangement.
- Loan agreements, sanction letters, facility agreements and other financing documents relating to the underlying borrowing supported by the guarantee.
- Board resolutions, corporate approvals and other internal documentation authorising the guarantee arrangement.
- Documentation evidencing the nature of the guarantee, including whether it is explicit or implicit, together with the commercial rationale for providing or obtaining the guarantee.
- Analysis demonstrating the commercial or economic benefit derived by the borrower as a consequence of the guarantee arrangement, including improved borrowing capacity, favourable financing terms or reduced borrowing costs.
- Credit assessment of the borrower, including analysis of the borrower's credit profile with and without the guarantee, wherever applicable.
- Documentation supporting the lender's risk assessment, including default risk analysis, expected credit loss analysis, loss given default (LGD) analysis or other contemporaneous credit risk documentation, wherever available.
- Benchmarking documentation supporting the selected MAM, including comparable guarantee fee arrangements, market guarantee fee data, credit spread analysis, yield differentials or other relevant financial benchmarks.
- Computation of the guarantee fee, together with supporting workings and reconciliation with the inter-company agreement and accounting records.

- Inter-company invoices, debit notes, credit notes and related party ledger extracts supporting the guarantee fee charged or received, wherever applicable.
- Working papers supporting the computation of the transaction value as per the books of account and the value computed having regard to the ALP.
- Reconciliation of the guarantee transaction with the audited financial statements, related party disclosures and TP Documentation.
- Supporting documentation for any observations or remarks reported in Form No. 3CEB.

Clause 16 - Marketable Securities and Equity Instruments

Clause 16 requires reporting of international transactions relating to the purchase or sale of marketable securities or the issue and buyback of equity shares, optionally convertible, partially convertible or compulsorily convertible debentures or preference shares, including transactions referred to in Explanation (i)(c) to section 92B of the Act. The disclosure includes the AE, nature of the transaction, transaction value, value computed having regard to the ALP, the MAM adopted under section 92C and observations or remarks, if any.

Indicative Checklist of Information and Documentation

Before reporting the transaction under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Share subscription agreements, share purchase agreements, share transfer agreements, buyback agreements, shareholders' agreements and other commercial agreements governing the transaction.
- Board resolutions, shareholders' resolutions and other corporate authorisations relating to the issue, transfer, purchase or buyback of the securities.
- Independent valuation reports supporting the issue, transfer or buyback of the securities, together with the underlying valuation workings, assumptions and methodologies adopted.
- Documentation evidencing the quantum of securities, face value, issue price, transfer price or buyback price, currency of the transaction and

consideration paid or charged, together with reconciliation to the fair market value determined under the valuation report.

- Share allotment records, share certificates, securities registers, cap table updates and other records evidencing the movement of ownership.
- Statutory and regulatory filings made with the Registrar of Companies (RoC), Reserve Bank of India (RBI), filings under the Foreign Exchange Management Act, 1999 (FEMA) and other regulatory authorities, wherever applicable.
- Bank statements, remittance advices, foreign inward remittance certificates (FIRC), foreign outward remittance documentation and other banking records evidencing the movement of funds, wherever applicable.
- Benchmarking documentation supporting the selected MAM, together with the computation of the ALP, wherever applicable.
- Documentation evaluating the tax implications arising from the transaction, including domestic tax provisions, treaty analysis (where applicable), tax computations and supporting working papers.
- Working papers supporting the computation of the transaction value as per the books of account and the value computed having regard to the ALP.
- General ledger extracts, related party ledger extracts and reconciliation of the transaction with the audited financial statements, books of account and TP Documentation.
- Supporting documentation for any observations or remarks reported in Form No. 3CEB.

Clause 17 - Mutual Agreement or Arrangement

Clause 17 requires reporting of international transactions entered into with an AE by way of a mutual agreement or arrangement for the allocation or apportionment of, or any contribution to, any cost or expense incurred or to be incurred in connection with a benefit, service or facility provided or to be provided to one or more AEs. The disclosure includes the AE, nature of the arrangement, transaction value, value computed having regard to the ALP, the MAM adopted under section 92C and observations or remarks, if any.

Indicative Checklist of Information and Documentation

Before reporting the transaction under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Cost Contribution Agreements (CCAs), cost sharing agreements, cost allocation agreements, inter-company agreements and other commercial arrangements governing the transaction.
- Detailed description of the arrangement, including the benefit, service or facility provided, the commercial rationale and the rights and obligations of the participating entities.
- List of the participating entities together with the scope of their participation, responsibilities and expected benefits under the arrangement.
- Documentation demonstrating the economic or commercial benefit expected to accrue to each participant from the arrangement.
- Details of the underlying cost pool together with the basis of compilation and identification of the direct and indirect costs included therein.
- Cost pool workings identifying the cost base, exclusions, adjustments and the overall costs available for allocation.
- Documentation supporting the allocation methodology and allocation keys adopted, together with the basis for selecting such allocation keys.
- Computation of the allocation or contribution made by each participant, including the underlying cost base, mark-up (where applicable), recharge computations and supporting workings.
- Where the arrangement relates to the joint development, acquisition or enhancement of tangible or intangible assets, documentation evidencing the legal and economic ownership of such assets, the rights and obligations of the participants, and the basis for sharing the associated costs, risks and expected benefits.
- Inter-company invoices, debit notes, credit notes and related party ledger extracts supporting the allocation or contribution.
- Benchmarking documentation supporting the selected MAM, together with the computation of the ALP, wherever applicable.

- Working papers supporting the transaction value as per the books of account and the value computed having regard to the ALP.
- Reconciliation of the allocated costs with the audited financial statements, books of account and TP Documentation.
- Supporting documentation for any observations or remarks reported in Form No. 3CEB.

Clause 18 - Business Restructuring or Reorganisation

Clause 18 requires reporting of international transactions arising out of, or forming part of, any business restructuring or reorganisation entered into with an AE, as referred to in Explanation (i)(e) to section 92B of the Act, which have not been specifically reported under the preceding clauses. The disclosure includes the AE, nature of the restructuring or reorganisation, the MAM adopted under section 92C and observations or remarks, if any.

Indicative Checklist of Information and Documentation

Before reporting the transaction under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Business restructuring agreements, business transfer agreements, novation agreements, termination agreements, transition service agreements and other commercial arrangements governing the restructuring.
- Board resolutions, management approvals, restructuring proposals and internal memoranda documenting the commercial rationale and objectives of the restructuring.
- Detailed description of the restructuring, including the functions, assets and risks transferred, assumed, terminated or modified as part of the arrangement.
- Functional, Asset and Risk (FAR) analysis of the participating entities immediately before and after the restructuring.
- Documentation evidencing the transfer, migration or reallocation of tangible assets, intangible assets, contracts, employees, customers or business opportunities, wherever applicable.
- Independent valuation reports together with the underlying valuation workings, assumptions and methodologies supporting the restructuring.

- Documentation evaluating the transfer of profit potential, anticipated synergies, expected commercial benefits and the impact of the restructuring on the allocation of profits among the participating entities.
- Analysis supporting any exit charge, termination compensation, indemnity or other restructuring compensation, together with the basis of its computation.
- Comparative financial analysis demonstrating the impact of the restructuring on the profitability and economic position of the participating entities before and after the restructuring.
- Benchmarking documentation supporting the selected MAM together with the computation of the ALP, wherever applicable.
- Working papers supporting the disclosures made in Form No. 3CEB and reconciliation with the audited financial statements and TP Documentation.
- Supporting documentation for any observations or remarks reported in Form No. 3CEB.

Clause 19 - Other International Transactions

Clause 19 requires reporting of any other international transaction, including a transaction having a bearing on the profits, income, losses or assets of the assessee, which has not been specifically covered under the preceding clauses. The disclosure includes the AE, nature of the transaction, transaction value, value computed having regard to the ALP, the MAM adopted under section 92C and observations or remarks, if any.

Indicative Checklist of Information and Documentation

Before reporting the transaction under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Inter-company agreements, reimbursement agreements, cost recovery arrangements, pass-through cost arrangements and other commercial agreements governing the transaction.
- Detailed description of the nature of the transaction together with documentation supporting its characterisation and the basis for reporting it under this clause.

- Documentation supporting expense reimbursements, cost recoveries, pass-through costs, free-of-cost supply of goods or services, employee share-based payment recharges and other miscellaneous international transactions, together with the basis for such treatment, wherever applicable.
- Documentary evidence supporting the underlying transaction, including invoices, debit notes, credit notes, supporting schedules, correspondence and internal approvals, wherever applicable.
- Cost workings supporting the computation of the amount recovered or reimbursed, including the underlying cost base, back-to-back third-party invoices (where applicable), recharge workings and other supporting documentation evidencing that the transaction represents a pure pass-through cost without any service element or mark-up, wherever applicable.
- Documentation supporting the commercial rationale and benefit of the transaction, wherever relevant.
- Benchmarking documentation supporting the selected MAM, together with the computation of the ALP, wherever applicable.
- Working papers supporting the transaction value as per the books of account and the value computed having regard to the ALP.
- General ledger extracts, related party ledger extracts and reconciliation of the transaction with the audited financial statements, books of account and TP Documentation.
- Bank statements, remittance advices and other supporting documentation evidencing settlement of the transaction, wherever applicable.
- Documentation evaluating the domestic tax implications, treaty analysis and withholding tax implications arising from the transaction, wherever relevant.
- Supporting documentation for any observations or remarks reported in Form No. 3CEB.

Clause 20 - Deemed International Transactions

Clause 20 requires reporting of deemed international transactions entered into with a person other than an AE, where such transaction has been entered into in pursuance of a prior agreement in relation to the relevant transaction between such other person and the AE. The disclosure includes the name of the third party, the relevant AE, nature of the transaction, transaction value, value computed having regard to the ALP, the MAM adopted under section 92C and observations or remarks, if any.

Indicative Checklist of Information and Documentation

Before identifying and reporting a deemed international transaction under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Details of significant transactions entered into with unrelated parties during the year, particularly those involving global vendors, customers, licensors, contract manufacturers, procurement agents, service providers or other strategic counterparties.
- Master vendor and customer lists together with details of global procurement arrangements, centralised sourcing arrangements and other group-level commercial arrangements that may indicate the existence of a deemed international transaction.
- Copies of agreements entered into with third parties together with any corresponding agreements, framework arrangements or understandings between the AE and such third party.
- Documentation demonstrating whether the terms, pricing or other material conditions of the transaction with the third party are determined, negotiated, influenced or governed by the AE.
- Group policies, procurement manuals, global sourcing policies, pricing policies, approval matrices, internal correspondence, emails and other contemporaneous documentation supporting the identification of a deemed international transaction.
- Board resolutions, management approvals, business transfer agreements, employee transfer arrangements, global procurement contracts, supply chain agreements and other restructuring or commercial documentation, wherever relevant.

- Benchmarking documentation supporting the selected MAM, together with the computation of the ALP.
- Working papers supporting the transaction value as per the books of account and the value computed having regard to the ALP.
- General ledger extracts, related party reconciliations and reconciliation of the transaction with the audited financial statements and TP Documentation.
- Documentation evaluating the domestic tax implications, treaty analysis and withholding tax implications arising from the transaction, wherever relevant.
- Supporting documentation for any observations or remarks reported in Form No. 3CEB.

2.4.2 Clauses relating to specified domestic transactions

Part C of Form No. 3CEB deals with Specified Domestic Transactions (SDTs) as defined under section 92BA of the Act. The TP provisions applicable to SDTs apply where the aggregate value of all SDTs entered into by the assessee during the previous year exceeds the threshold prescribed under section 92BA.

The scope of transactions covered under Section 92BA, are provided below:

i) *[deleted in the Income-tax Act]]*

ii) any transaction referred to in section 80A;

(iii) any transfer of goods or services referred to in sub-section (8) of section 80-IA;

(iv) any business transacted between the assessee and other person as referred to in sub-section (10) of section 80-IA;

(v) any transaction, referred to in any other section under Chapter VI-A or section 10AA, to which provisions of sub-section (8) or sub-section (10) of section 80-IA are applicable; or

(va) any business transacted between the persons referred to in sub-section (6) of section 115BAB;

[(vb) any business transacted between the assessee and other person as referred to in sub-section (4) of section 115BAE;]

(vi) any other transaction as may be prescribed,

The subsequent clauses of Part C prescribe the reporting requirements for each category of SDT. Similar to the guidance provided for international transactions, the following paragraphs provide an indicative checklist of information and documentation that may be collated and reviewed before reporting the respective transactions in Form No. 3CEB.

Clause 21 - Details of AEs

Clause 21 requires reporting of the particulars of each AE with whom the assessee has entered into SDTs during the relevant previous year. The particulars include the name, Permanent Account Number (PAN)/Aadhaar, address, nature of relationship and brief description of the business carried on by the AE.

Indicative Checklist of Information and Documentation

Before identifying the AE and reporting the particulars under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Group structure, ownership structure and organisational charts identifying the AE and its relationship with the reporting entity.
- Shareholding records, constitutional documents, board composition and other records supporting the nature of the relationship with the AE, wherever applicable.
- Name, PAN/Aadhaar, registered address and other identification particulars of the AE, together with supporting documentary evidence.
- Brief description of the principal business activities carried on by the AE, supported by annual reports, financial statements, websites or other publicly available information, wherever applicable.
- List of all SDTs undertaken with the AE during the relevant previous year together with the corresponding clauses of Form No. 3CEB under which such transactions are reportable.
- Documentation evidencing any additions, deletions or changes in the relationship with the AE during the previous year, wherever applicable.
- Reconciliation of the AE details with the books of account, related party disclosures and TP documentation.

Clause 22 - Transfer or Acquisition of Goods or Services

Clause 22 requires reporting of SDTs involving the transfer or acquisition of goods or services between eligible businesses of the assessee, as referred to in sections 80A(6), 80-IA(8) and section 10AA of the Act. The disclosure includes the eligible undertaking, nature of the transaction, transaction value, market value/ALP, the MAM adopted and observations or remarks, if any.

Indicative Checklist of Information and Documentation

Before reporting the transaction under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Details of the eligible undertaking together with supporting documentation evidencing the tax deduction or profit-linked incentive claimed under the relevant provisions of the Act.
- Separate books of account, financial statements, segmental financial information and other financial records maintained for the eligible undertaking.
- Tax computation, computation of the deduction claimed and supporting working papers relating to the eligible undertaking.
- Details of the transfer or acquisition of goods or services between the eligible undertaking and other business units of the assessee, together with the commercial rationale for the transaction.
- Internal transfer agreements, operating policies, pricing policies and other documentation governing the transfer of goods or services.
- Purchase orders, sales orders, invoices, delivery records, stock records and other supporting documents evidencing the transaction.
- Cost sheets, cost records, inventory records and other workings supporting the determination of the transfer price.
- External benchmarking documentation supporting the determination of the market value or ALP, including comparable uncontrolled transactions, quotations, market reference prices or other relevant market data, wherever applicable.
- Internal profitability analysis, including comparison with prior years, non-eligible undertakings or comparable business segments, overall entity-level profitability and other relevant financial analyses to evaluate

whether the profits of the eligible undertaking are consistent with what would ordinarily arise in similar circumstances.

- Segmental financial statements, segment-wise trial balances, allocation workings and reconciliation supporting the profits attributable to the eligible undertaking.
- Working papers supporting the computation of the transaction value as per the books of account and the market value/ALP adopted.
- General ledger extracts and reconciliation of the transaction with the books of account, financial statements and TP documentation.
- Supporting documentation for any observations or remarks reported in Form No. 3CEB.

Clause 23 - Transactions Resulting in More Than Ordinary Profits

Clause 23 requires reporting of SDTs entered into with an AE that have resulted in more than ordinary profits to an eligible business to which section 80-IA(10) or section 10AA of the Act applies. The disclosure includes the eligible undertaking, nature of the transaction, transaction value, ALP, the MAM adopted and observations or remarks, if any.

Indicative Checklist of Information and Documentation

Before reporting the transaction under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Details of the eligible undertaking together with supporting documentation evidencing the deduction or profit-linked incentive claimed under the relevant provisions of the Act.
- Separate books of account, financial statements, segmental financial information and other financial records maintained for the eligible undertaking.
- Tax computation, computation of the deduction claimed and supporting working papers relating to the eligible undertaking.
- Agreements, commercial arrangements and other documentation governing the transactions entered into with the AE or other relevant person.
- Detailed description of the transactions together with the commercial rationale and their impact on the profitability of the eligible undertaking.

- External benchmarking documentation supporting the determination of the ALP, wherever applicable.
- Internal profitability analysis, including comparison with prior years, non-eligible undertakings or comparable business segments, overall entity-level profitability and other relevant financial analyses to evaluate whether the profits of the eligible undertaking are consistent with what would ordinarily arise in similar circumstances.
- Segment-wise profitability analysis, cost allocations and reconciliation supporting the profits attributable to the eligible undertaking.
- Working papers supporting the computation of the transaction value as per the books of account and the ALP adopted.
- General ledger extracts and reconciliation of the transaction with the books of account, financial statements, tax computation and TP documentation.
- Supporting documentation for any observations or remarks reported in Form No. 3CEB.

Clause 24 - Transactions under Section 115BAB(6)

Clause 24 requires reporting of SDTs entered into with persons referred to in section 115BAB(6) of the Act that have resulted in more than ordinary profits expected to arise in such business. The disclosure includes the nature of the transaction, transaction value, ALP, the MAM adopted and observations or remarks, if any.

Indicative Checklist of Information and Documentation

Before reporting the transaction under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Details of the manufacturing undertaking claiming the concessional tax regime under section 115BAB together with supporting documentation evidencing its eligibility under the Act.
- Separate books of account, financial statements, segmental financial information and other financial records maintained for the undertaking.
- Tax computation, computation of the concessional tax liability and supporting working papers relating to the undertaking.

- Agreements, commercial arrangements and other documentation governing the transactions entered into with the persons referred to in section 115BAB(6).
- Detailed description of the transactions, including their nature, commercial rationale and impact on the profitability of the undertaking.
- Invoices, debit notes, credit notes, ledger extracts and other supporting documentation evidencing the transactions.
- External benchmarking documentation supporting the determination of the ALP, including comparable uncontrolled transactions, market data or other relevant benchmarking analyses, wherever applicable.
- Internal profitability analysis, including comparison with prior years, comparable business segments, overall entity-level profitability and other relevant financial analyses to evaluate whether the profits of the undertaking are consistent with what would ordinarily arise in similar circumstances.
- Segment-wise profitability analysis, cost allocation workings and reconciliations supporting the profits attributable to the undertaking.
- Working papers supporting the computation of the transaction value as per the books of account and the ALP adopted.
- Reconciliation of the transaction with the books of account, financial statements, tax computation and TP documentation.
- Supporting documentation for any observations or remarks reported in Form No. 3CEB.

Clause 25 - Transactions under Section 115BAE(4)

Clause 25 requires reporting of SDTs entered into with persons referred to in section 115BAE(4) of the Act that have resulted in more than ordinary profits expected to arise in such business. The disclosure includes the nature of the transaction, transaction value, ALP, the MAM adopted and observations or remarks, if any.

Indicative Checklist of Information and Documentation

Before reporting the transaction under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Details of the resident co-operative society claiming the concessional tax regime under section 115BAE together with supporting documentation evidencing its eligibility under the Act.
- Separate books of account, financial statements, segmental financial information and other financial records maintained for the eligible business.
- Tax computation, computation of the concessional tax liability and supporting working papers relating to the eligible business.
- Agreements, commercial arrangements and other documentation governing the transactions entered into with the persons referred to in section 115BAE(4).
- Detailed description of the transactions, including their nature, commercial rationale and impact on the profitability of the eligible business.
- Invoices, debit notes, credit notes, ledger extracts and other supporting documentation evidencing the transactions.
- External benchmarking documentation supporting the determination of the ALP, including comparable uncontrolled transactions, market data or other relevant benchmarking analyses, wherever applicable.
- Internal profitability analysis, including comparison with prior years, comparable business segments, overall entity-level profitability and other relevant financial analyses to evaluate whether the profits of the eligible business are consistent with what would ordinarily arise in similar circumstances.
- Segment-wise profitability analysis, cost allocation workings and reconciliations supporting the profits attributable to the eligible business.
- Working papers supporting the computation of the transaction value as per the books of account and the ALP adopted.
- Reconciliation of the transaction with the books of account, financial statements, tax computation and TP documentation.
- Supporting documentation for any observations or remarks reported in Form No. 3CEB.

Clause 26 - Any other SDTs

Clause 26 is a residual reporting clause requiring disclosure of any SDT not specifically covered under the preceding clauses. The disclosure includes the nature of the transaction, transaction value, ALP, the MAM adopted and observations or remarks, if any.

Indicative Checklist of Information and Documentation

Before reporting the transaction under this clause, the following information and documentation, as applicable, may be collated and reviewed:

- Nature of the SDT together with the basis for reporting the transaction under this residual clause.
- Agreements, internal policies, allocation methodologies or other documentation governing the transaction or arrangement.
- Detailed description of the transaction, including its commercial rationale and impact on the profitability of the eligible business.
- Cost allocation workings, allocation keys and supporting documentation for common costs, shared services, corporate overheads or other expenses allocated between eligible and non-eligible businesses, wherever applicable.
- Separate books of account, financial statements, segmental financial information and other financial records maintained for the eligible business, wherever applicable.
- Tax computation and supporting working papers demonstrating the impact of the transaction on the profits eligible for deduction or concessional tax treatment, wherever applicable.
- Invoices, debit notes, credit notes, ledger extracts and other supporting documentation evidencing the transaction.
- External benchmarking documentation, internal comparable analyses or other supporting documentation substantiating the market value or ALP, wherever applicable.
- Internal profitability analysis, including comparison with prior years, non-eligible businesses, comparable business segments, overall entity-level profitability and other relevant financial analyses supporting that the profits of the eligible business are not excessive or unreasonable.

- Working papers supporting the computation of the transaction value as per the books of account and the market value/ALP adopted.
- Reconciliation of the transaction with the books of account, financial statements, tax computation and TP documentation.
- Supporting documentation for any observations or remarks reported in Form No. 3CEB.

Chapter 3
TP Study Report

3.1 Introduction

TP documentation / TP Study (which broadly corresponds to the "Local File" under the OECD's three-tier documentation framework) is one of the primary and most important compliance requirements for taxpayers entering into transactions with their associated enterprises. The purpose of maintaining documentation is not merely to satisfy a statutory requirement but to establish that the pricing of controlled transactions is consistent with what independent parties would have agreed under similar circumstances.

As multinational groups continue to expand across jurisdictions, tax authorities increasingly focus on understanding how profits are allocated within a group and whether such allocation reflects the actual business activities undertaken in each jurisdiction. Accordingly, transfer pricing documentation serves as the primary source of information through which a taxpayer demonstrates the commercial rationale, pricing methodology, and economic basis of its intercompany transactions.

3.2 The place of TP Study in the Indian framework

The Indian TP law, contained in sections 92 to 92F of the Income-tax Act, 1961, read with the Income-tax Rules, 1962 require the taxpayer to maintain prescribed information and documents. The reporting obligation is generally discharged through the accountant's report in Form No. 3CEB under section 92E. The documentation requirement is dealt with under Rule 10D. Form No.3CEB reports the existence and value of the transactions, whereas the study explains the business context, the functional profile, the selection of the MAM, the comparability analysis, and the ultimate conclusion regarding the ALP.

For this reason, a TP Study should be prepared contemporaneously and before the position is frozen. It should not be written after the Form No. 3CEB numbers have already been finalised merely to support a conclusion already taken. If the facts are gathered early, the study may itself reveal that a transaction has been missed, that an entity has been wrongly characterised as a routine service provider, or that the agreement and actual conduct are inconsistent. These issues are easier to identify and address before filing than during scrutiny.

It is equally important to note that TP litigation in India often turns on factual characterisation. The statute prescribes methods and rules, but the first battle is usually on the character of the taxpayer. Is it a full-fledged entrepreneur, a contract manufacturer, a routine distributor, a captive service provider, a low-risk support entity, or a company assuming significant market and credit risks. The answer cannot be determined merely from a label. It must be built from the business model, the agreements, the invoices, the employee interviews, the accounts, and the actual conduct of the parties.

A practical TP Study should therefore achieve four key objectives. It should:

- identify the transactions correctly;
- explain the taxpayer's business in a manner specific to the relevant financial year;
- accurately document the FAR analysis; and
- connect the FAR analysis with the selection of the MAM and the benchmarking analysis.

The TP Study should not be viewed in isolation. The characterization of entities, the nature of transactions, and value chain descriptions should generally remain consistent with the information disclosed in the Master File and Country-by-Country Report.

Rule 10TD and Rule 10TE provide for safe harbour treatment for specified eligible international transactions. Where a taxpayer elects safe harbour by filing Form 3CEFA, the TP methodology and pricing position are not subject to scrutiny for the year of election, provided the declared margins meet the prescribed safe harbour thresholds and other conditions are satisfied. Since the safe harbour rules are notified for specified assessment years and may be amended from time to time, taxpayers should verify the applicability of the relevant notification for the year under consideration.

However, the safe harbour election does not eliminate the Rule 10D documentation obligation. The taxpayer must still maintain Rule 10D documentation to substantiate the eligibility conditions, the nature of functions performed, and the applicable transaction category. The election merely simplifies the benchmarking requirement, the full functional and transactional narrative must still be maintained.

The decision to opt into safe harbour must be evaluated consciously each year. Where the taxpayer's actual operating margin already satisfies the safe harbour threshold, the election provides certainty. Where actual margins fall below the threshold, the taxpayer must decide whether to benchmark through the standard Rule 10D documentation process or align the pricing with the applicable safe harbour requirements after considering the commercial and tax implications.

3.3 Rule 10D Documentation Requirements

Rule 10D prescribes the information and documentation that taxpayers are required to maintain to substantiate that international transactions and specified domestic transactions have been undertaken at arm's length. The documentation should be contemporaneous, relevant to the financial year under review, and capable of supporting the TP positions adopted in Form No. 3CEB and the TP Study. While Rule 10D prescribes the minimum statutory documentation requirements, taxpayers may maintain additional documentation where warranted by the nature, complexity or materiality of the transactions.

Particulars	**Requirement**
Applicability	• Applicable to taxpayers entering into international transactions or specified domestic transactions covered under TP provisions. • Detailed documentation under Rule 10D(1) is generally required where the aggregate value of international transactions exceeds the threshold prescribed under Rule 10D during the relevant financial year. Where the threshold is not exceeded, the taxpayer should maintain sufficient supporting documentation to substantiate the arm's length nature of the transactions.

Ownership Structure	• Details of shareholding pattern and group structure.
Group Profile	• Overview of the multinational group, business operations and geographic presence along with ownership linkages.
Business Description	• Description of the taxpayer's business, value chain, industry and description of the business of associated enterprises.
Nature of Transactions	• Details of international transactions or deemed international transactions or specified domestic transaction, counterparties, values and contractual terms.
Functional Analysis (FAR)	• Analysis of functions performed, assets employed and risks assumed by the parties.
Economic Analysis	• Details of economic and market analyses, forecasts, budgets or any other financial estimates prepared by the taxpayer for the business as a whole and for each division or product separately. • Description and selection of the MAM, benchmarking analysis, comparability adjustments, where applicable, and determination of the ALP.
Assumptions and Policies	• Business strategies, pricing policies and key assumptions influencing pricing outcomes.
Contemporaneous Requirement	• Documentation should be contemporaneous and based on information available during the relevant financial year.
Retention Period	• Documentation should be retained for the period prescribed under the Act and the Rules (currently eight years from the end of the relevant assessment year).

3.4 Why preparation of TP Study is important

The first importance of the study is evidentiary. The taxpayer carries the burden of maintaining information and documents which support the arm's length nature of its transactions. In an assessment, the officer is not bound to accept the taxpayer's claim merely because an accountant's report has been filed. A properly prepared study gives the taxpayer a contemporaneous explanation. It shows that the issue was examined at the right time and that the pricing was not an afterthought.

The second importance is that the study protects the narrative. Related party transactions often look artificial when they are seen only as journal entries. Management fees, royalty, support services, cost allocations, reimbursements and intra-group loans can all be questioned if the business reason is not explained. A study should record why the transaction exists, who requested it, who benefitted from it, how the charge was determined, and whether independent parties could reasonably behave in a similar way. This does not mean that the document must be argumentative. It should be factual enough to prevent a wrong narrative from being created later.

The third importance is penalty exposure. Documentation by itself is not a guarantee against an adjustment or penalty, but absence of proper documentation places the taxpayer in a weak position. A file which contains only generic pages, old group descriptions and a database search copied from an earlier year may be treated as a mechanical exercise. On the other hand, a study which records year-specific facts, explains business reasons, and keeps supporting documents can help show that the taxpayer acted with due care.

The fourth importance is internal control. Many companies do not realise that the TP Study is often the only annual document where finance, tax, legal and business teams meet in one place. While preparing the study, the professional may discover that agreements are unsigned, invoices do not describe the service, debit notes are raised without working papers, the legal ownership of intangibles is unclear, or the actual risk-bearing is different from the group policy. These are not only TP issues. They are governance issues.

The fifth importance is continuity. TP positions are examined across years. If the taxpayer says in one year that it is a limited risk distributor and in another year that it bears full market risk, the file should explain what changed. A well-prepared study creates continuity in characterisation. It records changes in business model, new transactions, changes in pricing policy, abnormal expenses, one-time events and material changes in the market. This is particularly useful when assessments happen after several years and the employees who knew the facts have moved on.

The sixth importance is that a study can prevent over-engineering. Some professionals start with the database and then try to fit the facts into the comparables. The better approach is the reverse. First understand the business, prepare the corporate overview, undertake the industry and business analysis, then perform the functional analysis, and only thereafter select the tested party, the MAM and undertake the benchmarking analysis. This sequence avoids the common mistake of using a standard method simply because it was used last year.

With the operationalisation of the three-tier documentation structure, the TP Study/Local File (as required under Rule 10D of 1962 Rules) is no longer reviewed in isolation. Tax authorities review the Local File alongside the Master File and CbCR disclosures. The CBDT may receive CbCR data through the exchange of information framework, including under the Multilateral Competent Authority Agreement (MCAA), and uses such information as part of its TP risk assessment process.

Inconsistencies between the Local File and the Master File or CbCR are a significant and growing audit trigger. Common inconsistencies that invite scrutiny include:

- Entity characterisation in the Local File (e.g., 'captive service provider with limited risk') inconsistent with a high profit allocation in the CbCR for the same entity
- Intangible ownership or DEMPE contributions described differently in the Local File and the Master File
- Employee headcount or tangible asset base reported in the CbCR not supported by the functional profile in the Local File
- Value chain description in the Master File attributing significant value creation to a jurisdiction that contradicts the Local File characterisation of the Indian entity as routine
- Related-party transaction values in the Local File materially different from CbCR intercompany revenue figures without adequate explanation

A well-prepared Local File should therefore include a formal consistency review before finalisation, whereby the entity characterisation, transaction values and profit attribution are reconciled with the Master File and CbCR before filing.

3.5 How to start the TP Study

Before commencing the TP Study, the professional should obtain the relevant financial, legal, operational and TP documentation necessary to understand the business and the controlled transactions. An indicative client information request list is provided later in this section. Where the company belongs to a multinational group, the professional should also obtain the group structure, management presentations, publicly available information (such as the group's website), details of the country-wise roles of group entities, and the Master File or equivalent TP documentation, wherever available. Where the company belongs to a multinational group, the professional should also ask for the group structure, management presentation, website material, country-wise roles of entities and any master file or local file prepared in other jurisdictions.

The exercise should generally begin with the extraction of related-party ledgers from the accounting system. The professional should obtain ledger accounts for each associated enterprise and reconcile the transactions appearing in those ledgers with the financial statements, related party disclosures and Form No. 3CEB.

The intent is that the study should not mention one set of transactions while Form No. 3CEB reports another. Every international transaction should have a clear source. The value reported should be traceable to books or a working paper. Reimbursements should be separately seen because taxpayers often assume that reimbursements do not need analysis. Even a reimbursement may require examination of whether it is a pure pass-through, whether there is any embedded service, and whether a mark-up should or should not be charged.

Once the ledger review is completed, transactions should be mapped on an associated enterprise-wise basis. This helps identify the nature and volume of dealings with each group entity. This should not be a casual exercise. Section 92A contains specific conditions. In a group case, the relationship may be obvious, but in joint venture, funding, dependence on intangibles, management control or business dependence cases, the analysis may be more delicate. The study should not merely list the names of entities. It should briefly explain the relationship and the nature of dealing with each one.

The next step is to map the transactions against the relevant inter-company agreements. Every material transaction should ideally be supported by a corresponding contractual arrangement. This exercise helps identify situations where transactions are being undertaken without formal documentation or where the actual transaction differs from the contractual description.

Thereafter, transactions should be classified into appropriate categories such as:

Transaction Category	**Examples**
Purchase of Goods	Raw materials, finished goods, components
Sale of Goods	Exports to associated enterprises
Provision of Services	IT services, engineering services, support services
Receipt of Services	Management services, technical services, shared services
Royalty and Intangibles	Trademark royalty, technology licence fees
Financial Transactions	Loans, guarantees, cash pooling arrangements
Cost Allocations	Regional cost recharge, shared service allocations
Reimbursements	Employee related costs or travel expenses or third-party charges, etc.,
Business Restructuring	Transfer of functions, assets or risks

Particular attention should be given to unusual or non-recurring transactions. Transactions such as business transfers, asset sales, restructuring activities, settlement payments, termination fees, one-time cost allocations or significant year-end adjustments may require separate TP analysis and should not be overlooked.

Once the preliminary review is complete, the TP Study may be drafted beginning with the corporate and business overview, followed by the industry analysis, functional analysis and economic analysis. These aspects are discussed in detail in the following paragraphs.

Once the transactions have been identified and classified, a preliminary TP risk assessment should be performed. The outcome of this exercise helps determine the areas that require additional factual verification, supporting documentation and benchmarking analysis while preparing the TP Study.

Key areas for preliminary risk assessment is provided below:

Area	Potential Risk Indicator
Profitability	Losses, declining margins, abnormal fluctuations
Revenue Trends	Significant increase or decrease compared to prior years
Transaction Values	Material change in related-party transactions
Business Model	Change in functional profile or risk profile
Restructuring Activities	Transfer of functions, assets or risks
Service Transactions	Significant management fees or cost allocations
Financial Transactions	Loans, guarantees, cash pooling arrangements
Intangible Transactions	Royalty payments, technology transfers
Year-End Adjustments	Large TP true-up entries

Client Data Gathering Template:

The following information request list should be shared with the client at the commencement of the Local File engagement. Early and complete data gathering is the single most important factor in producing a high-quality, defensible Local File.

Category	Documents / Information Required
Financial Information	Audited financial statements; trial balance; AE-wise general ledger extracts; segmental financials (if

	maintained); management accounts/MIS; Form No. 3CD and Tax Audit Report
Related Party Information	Updated group structure; list of Associated Enterprises; shareholding pattern; details of new entities, acquisitions, mergers or restructuring during the year
Controlled Transactions	AE-wise transaction summary (nature, value and counterparty); invoices; reconciliation with books; cost allocation workings; recharge schedules; sample supporting documents
Outstanding Receivables / Payables	Ageing of inter-company receivables and payables; collection/payment details; outstanding balances as at year-end; details of overdue invoices; interest charged/recovered, if any
Inter-company Agreements	Executed agreements (including amendments); details of transactions without agreements; agreements renewed, terminated or expired during the year
Functional & Organisational Information	Organisation chart; employee list with designation and department; employee profiles for key personnel; reporting structure; description of functions performed; changes during the year
Assets & Risk Profile	Details of key tangible and intangible assets employed; ownership of IP; asset additions/disposals; risk matrix showing risks contractually assumed and actually borne by each entity
Operational Evidence	Service requests, deliverables, project reports, timesheets, email correspondence, SOPs, production records, inventory reports, customer contracts, pricing approvals, procurement records, etc., depending upon the nature of transaction
TP Information	Prior year TP Study Report; Form No. 3CEB; TP workings; benchmarking analysis (if available); details of changes in TP policy or pricing methodology during the year

Group Information	Master File (or equivalent group TP documentation); group TP policy; CbCR (if applicable); group benchmarking studies; global business overview
Financing Transactions	Loan agreements; repayment schedules; interest workings; credit rating reports; guarantee agreements; cash pooling arrangements; treasury policies
Intangible Property	Licence agreements; trademark/patent registrations; R&D documentation; DEMPE analysis; IP ownership and commercialisation details
Litigation / Advance Rulings	Details of TP assessments, adjustments, appeals, APA/MAP proceedings, Safe Harbour option, DRP/CIT(A)/ITAT orders, if any

3.6 The Corporate Overview

Practically, Corporate or Business Overview is one of the most important parts of the study. It introduces the taxpayer to the officer. If the overview is vague, copied or too promotional, the rest of the study starts with a credibility problem. The overview should be written as if the reader does not know the company at all, but it should not read like marketing material.

A good corporate overview should answer basic questions; when was the company incorporated, who are its shareholders, what is the group to which it belongs, what business does it carry on in India, what are the main products or services, who are its customers, what is the role of the foreign associated enterprise, what changes took place during the year, whether the company is in start-up phase, growth phase, steady state or winding down, whether there were abnormal events such as new product launch, loss of a major customer, business restructuring, supply disruption, foreign exchange movement or one-time expenses.

The overview must be year specific. Many studies continue to say that the company is engaged in a particular line of business even after that business has ceased. This happens because the overview is copied from earlier years. A reviewer should be able to identify the relevant financial year by reading the overview. If the company added a new service line, entered into a new agreement, changed pricing policy, shifted from import distribution to local manufacturing, or began providing support to a new associated enterprise, the overview should mention it.

The corporate overview should also, to the extent relevant, remain consistent with the business descriptions and value chain narrative contained in the Master File and other group TP documentation.

The overview should also contain the commercial reason for the related party arrangements. For example, if an Indian company imports specialised products from its foreign associated enterprise and sells them in India, the overview should explain why the AE is the supplier, what value it brings, whether it owns technology or brand, and what the Indian company does in the local market. Again, if the Indian entity provides back-office support services, the overview should describe the nature of services, the delivery model, the reporting lines and the broad profile of employees. If the transaction is royalty, the overview should state what intangible is used, why it is required, and how it supports the Indian business. These points should be factual, not defensive.

While the overview should provide sufficient business context, detailed discussion of functions performed, assets employed and risks assumed should be reserved for the functional analysis section.

Presentation style for the Corporate Overview

The overview should be written in professional language. Avoid sentences such as 'the company is a leading global player committed to excellence through innovation' unless these words are supported by actual business facts and are necessary. A better sentence is: 'The Company imports finished diagnostic equipment from its Singapore associated enterprise and distributes the same to hospitals and diagnostic centres in India through its direct sales team and third-party dealers.' This sentence gives the reader a business picture. It is more useful than a long promotional description.

The professional should also avoid excessive legal conclusions in the overview. Do not write at the outset that all transactions are at arm's length. That is the conclusion of the study, not the introduction. The overview should state facts. The legal and economic conclusion can come later after the method and benchmarking have been discussed.

A practical approach is to structure the overview in a logical sequence covering the taxpayer and the group, the Indian business, the role of the associated enterprises and the year-specific developments relevant to the financial year under review. Additional details may then be included depending on the facts of the case. This approach keeps the overview concise, readable and avoids unnecessary repetition.

3.7 Industry and business analysis

As a practical matter, a sound understanding of the industry and business environment forms an integral part of a robust comparability analysis.

3.7.1 Understanding industry dynamics

A rigorous industry analysis begins with mapping the structural characteristics of the sector in which the taxpayer operates. This includes an examination of the competitive landscape, market concentration, barriers to entry, the role of technology and innovation, and the degree of regulatory oversight. In India, sector-specific regulators such as SEBI for financial markets, TRAI for telecommunications, and IRDAI for insurance impose unique constraints that directly influence business models, risk profiles, and pricing behaviour.

The analysis should identify key value drivers, typical supply chain structures, and the nature of principal-versus-limited-risk arrangements prevalent within the industry. For instance, in the pharmaceutical sector, intellectual property and research and development activities are often the primary drivers of value creation, whereas in contract manufacturing businesses, tangible asset intensity and operational efficiency assume greater significance.

A robust understanding of these industry dynamics provides the foundation for an appropriate functional analysis and facilitates the identification of reliable comparables for benchmarking purposes. Accordingly, Indian TP regulations contemplate the consideration of industry and economic factors as part of a comprehensive comparability analysis.

3.7.2 Economical and commercial circumstances

TP comparability is fundamentally influenced by the economic and commercial circumstances in which controlled and uncontrolled transactions take place. Rule 10B of the Rules requires an evaluation of the contractual terms, functions performed, assets employed, and risks assumed (the FAR analysis), together with the prevailing economic conditions affecting the parties and transactions under review. Such economic circumstances may include the geographic market, customer and supplier profiles, market size and level (e.g., wholesale versus retail), competitive conditions, and the availability of substitute products or services.

In the Indian context, factors such as location savings, local market characteristics, and workforce-related cost advantages may give rise to economic conditions that differ materially from those prevailing in other jurisdictions. Accordingly, where such differences are shown to have a material impact on comparability, consideration may be given to appropriate comparability adjustments, subject to the availability of reliable data and a reasonable basis for quantification. Indian TP jurisprudence has recognized the relevance of economic circumstances in the comparability analysis, while emphasizing the need for robust factual and economic support for any proposed adjustment.

3.7.3 Market positioning and business strategies

An entity's market positioning and strategic objectives can legitimately affect its financial results, independent of TP practices. Strategies such as market penetration (accepting lower margins to build market share), product launches, cost leadership, or premium differentiation can temporarily depress or inflate profitability. TP documentation must explicitly identify and substantiate any such strategies, supported by internal business plans, board resolutions, or management communications.

The OECD Guidelines recognize that temporary losses or reduced margins arising from legitimate business strategies, such as market penetration or market expansion initiatives, do not, in themselves, indicate non-arm's-length pricing. The relevance of such strategies must be evaluated in light of the commercial rationale, the conduct of the parties, and whether an independent enterprise operating under comparable circumstances would reasonably be expected to pursue a similar strategy. Indian TP jurisprudence has, in appropriate cases, accepted such explanations where supported by robust contemporaneous documentation and evidence demonstrating that the strategy was commercially driven and consistent with arm's-length behaviour.

3.7.4 Industry-specific considerations

Indian TP litigation has also evolved distinct principles for sectors such as software services, pharmaceuticals and financial services, reflecting the unique comparability considerations applicable to those industries.

For each industry, the selection of the MAM and the pool of potential comparables must reflect the economic reality of how value is generated and distributed in that sector.

3.7.5 Impact of macroeconomic analyses

Macroeconomic conditions form an important element of the economic environment in which enterprises operate and may materially influence business performance. Factors such as GDP growth, inflation, exchange rate movements, interest rates, trade policies and industry-wide economic disruptions can affect the profitability of both the tested party and comparable companies. Accordingly, consideration of prevailing market and economic conditions is an integral part of the comparability analysis under Indian TP regulations. In appropriate circumstances, significant economic disruptions may warrant the rejection of certain comparables or the consideration of comparability adjustments, provided that the impact of such conditions is supported by contemporaneous and reliable empirical evidence.

3.7.6 Illustration: Importance of Industry and Business Analysis

ABC India Private Limited provides marketing support services to its overseas associated enterprise, which is engaged in the manufacture and sale of medical devices. The Indian entity undertakes activities such as market research, customer coordination, identification of potential customers, and support in promotional initiatives undertaken by the group.

While the international transaction relates to the provision of marketing support services, a proper understanding of the medical devices industry remains important for the TP analysis. Factors such as industry growth, regulatory requirements, competitive landscape, customer purchasing behaviour, and distribution channels may influence the nature of the services performed by the Indian entity and the value derived by the overseas associated enterprise.

Accordingly, the industry analysis in such a case should not be restricted to a generic discussion of marketing support service providers. Instead, it should also consider the industry in which the associated enterprise operates and the commercial environment in which the services are rendered. This enables a better understanding of the business context of the transaction and strengthens the overall TP analysis.

Accordingly, while the tested transaction relates to marketing support services, the industry analysis should extend beyond the service provider itself and encompass the commercial environment of the associated enterprise that benefits from those services.

3.8 Review of Inter-company agreements

Inter-company agreements provide the contractual framework for controlled transactions and should be one of the first documents reviewed during the preparation of a TP Study. The agreement assists in understanding the nature of the transaction, the roles of the parties, pricing arrangements, ownership of intangibles and allocation of risks. The terms of the agreement should be considered together with the FAR analysis and other supporting documentation to ensure that the TP analysis reflects the commercial arrangement between the parties.

Particular attention should be given to the scope of the transaction, pricing mechanism, risk allocation, ownership of intellectual property, responsibilities of the parties and termination provisions.

As part of the review, the following key clauses should be examined:

Area of Review	**Key Considerations**
Scope	Nature of goods, services or rights being provided
Pricing	Basis of charge, mark-up, royalty rate or pricing formula
Risk Allocation	Risks contractually allocated to each party
Intellectual Property	Ownership and usage rights relating to intangibles
Responsibilities	Functional responsibilities of each party
Termination	Duration, renewal and termination provisions

The absence of a formal inter-company agreement does not, by itself, preclude a TP analysis. However, where agreements are unavailable, unsigned or executed after the commencement of the transaction, the TP Study should clearly document the commercial understanding between the parties based on contemporaneous evidence such as invoices, correspondence, board approvals, TP policies and the actual conduct of the parties.

Agreement vs. Actual Conduct

While inter-company agreements provide the contractual framework governing controlled transactions, they should not be relied upon in isolation. A critical aspect of TP analysis is to evaluate whether the contractual terms are consistent with the actual conduct of the associated enterprises. The roles and responsibilities performed, assets employed, risks assumed, pricing policy followed, decision-making authority, and commercial behaviour in practice should align with the contractual arrangement.

This exercise is fundamental as it directly influences the accurate delineation and characterisation of the controlled transaction, selection of the most appropriate TP method, determination of the tested party, allocation of profits among group entities, and ultimately the arm's length outcome. Where the actual conduct of the parties differs from the contractual terms, the tax authorities are likely to disregard the written agreement to the extent of such inconsistency and characterise the transaction based on its economic substance. Accordingly, the TP study should critically evaluate whether the contractual arrangement is faithfully implemented in practice and supported by supported by appropriate contemporaneous documentation and other evidence demonstrating how the transaction was actually implemented.

3.9 Functional analysis: The heart of the study

Functional analysis is the heart of a TP Study. It is sometimes called FAR analysis because it deals with functions performed, assets employed and risks assumed. In practice, it is the section where entity characterization is made. The choice of tested party, method, profit level indicator and comparables will usually flow from the functional analysis. If this section is weak, benchmarking will also be affected.

A functional analysis should not be a list of generic functions. It should identify what each party actually does in relation to each controlled transaction. In a distribution case, one must see procurement, import, warehousing, logistics, sales, marketing, credit control, warranty handling and after-sales support. In a manufacturing case, one must see procurement of raw material, production planning, quality control, use of technology, inventory management, capacity utilisation and market responsibility. In a service case, one must see employee functions, supervision, quality review, client interaction, use of systems, and responsibility for errors or delays.

The analysis should be transaction specific. A company may be a routine service provider for one transaction and a risk-bearing entrepreneur for another. It may be a contract manufacturer in relation to products manufactured for an AE and an independent manufacturer in relation to domestic third-party sales. It may provide IT support to one AE and also receive management services from another AE. Therefore, the functional analysis should not assume that the whole company has only one profile unless the facts support it.

The professional should also be careful about words such as 'limited risk', 'routine', 'full-fledged', 'entrepreneurial', 'contract', 'captive' and 'support'. These words have consequences. If the study calls the Indian company a limited risk distributor, the officer may ask who bears market risk, inventory risk, credit risk and warranty risk. If the answers show that the Indian entity bears these risks, the label will damage credibility. The label must come after the analysis, not before it.

3.9.1 Functions performed

The functions section should begin with the Indian taxpayer. It should describe what the taxpayer's people actually do. For example, in a captive software development company, the employees may write code, perform testing, maintain project documentation and report to project managers of the AE. But one should also ask who decides the product roadmap, who owns the software, who deals with the end customer, who bears the risk of rejection, and who controls the budget. These questions decide whether the Indian entity is a routine development service provider or something more substantial.

In a distribution business, the study should not simply say that the Indian company performs distribution. Distribution itself is not one function. It includes demand generation, customer identification, price negotiation, order processing, import planning, warehousing, local transportation, dealer management, collection and complaint handling. If the foreign AE only supplies goods and owns the brand, its functions should be described accordingly. If the AE also approves prices, controls marketing strategy and bears warranty obligations, that should be recorded.

In a management service or support service transaction, the function analysis is often thin. The study may say that the AE provides strategic, financial, HR and IT support. This is rarely enough. The professional should ask for evidence of actual service. The file should mention the type of support, frequency, recipient department, and manner in which the Indian company used the service. If no evidence exists, the problem should be flagged. A TP Study cannot create evidence after the event; it can only record available facts.

Where the Indian company provides services to AEs, the study should capture the delivery process; who receives the work request, who allocates work internally, what level of skill is required, whether employees follow standard operating procedures, whether the work is reviewed by the AE, whether the Indian company has authority to deviate from instructions, whether it bears risk for rework. These practical questions are more useful than generic descriptions of 'technical and administrative functions'.

3.9.2 Assets employed

Assets part of FAR analysis depict the economic capacity of the parties. The study should identify tangible assets such as plant, machinery, office premises, warehouse, computers, servers and testing equipment. It should also identify intangible assets such as brand, technology, software, know-how, customer lists, licences, patents, designs, process manuals and marketing intangibles, to the extent relevant.

In Indian TP practice, disputes often arise around intangibles. The legal owner of an intangible may be the foreign AE, but the Indian company may be performing important development, enhancement, maintenance, protection or exploitation functions. If the Indian entity spends heavily on advertising and marketing for a foreign brand, the question may arise whether it is creating or enhancing marketing intangibles. If it performs research and development, the question may arise whether it is merely providing contract R&D services or contributing to valuable intangibles. The analysis should therefore evaluate not only the legal ownership of the intangible but also the economically significant functions relating to its development, enhancement, maintenance, protection and exploitation (DEMPE), wherever relevant.

The assets section should also mention whether any valuable assets are owned by the AE and merely used by the Indian company. For example, an Indian distributor may use the group brand, product manuals, ordering platform and technical specifications. A captive service provider may use software tools, process manuals and secure network access provided by the AE. These facts help explain why a particular return is earned by one party and a different return is earned by another.

3.9.3 Risks assumed

Risk analysis is the most sensitive part of the functional analysis. In many studies, risks are allocated according to the inter-company agreement without testing actual conduct. This is incorrect. The correct approach is to see who contractually assumes the risk, who has the capacity to control the risk, who actually takes decisions relating to the risk, and who bears the financial consequences when the risk materialises.

Common business risks include market risk, price risk, inventory risk, credit risk, foreign exchange risk, product liability risk, warranty risk, capacity utilisation risk, manpower risk and regulatory risk. Not all risks are relevant in every case. The study should discuss only those risks which matter for the transaction. A captive IT support entity may not need a long discussion on inventory risk. A distributor must discuss inventory and credit risk. A manufacturer must discuss capacity utilisation, raw material and quality risk.

The professional should be especially careful where the study says that the Indian company bears no risk. In real life, almost no entity bears no risk at all. Even a routine service provider may bear manpower risk, operational risk and compliance risk. What the study should usually say, if the facts support it, is that the Indian company does not bear significant market or entrepreneurial risk and is compensated on a cost-plus basis for routine services. This is more realistic and more defensible than saying that it is completely risk-free.

Risk allocation should also be consistent with the pricing model. If the Indian company is said to bear significant market risk, but it earns a fixed cost-plus return regardless of success or failure, the inconsistency should be explained. If the AE bears customer credit risk, there should be evidence that bad debts are borne by the AE or that the Indian company is protected. If the Indian company holds inventory and suffers loss on slow-moving goods, it is difficult to say that inventory risk is fully with the AE unless there is a buy-back or compensation mechanism.

3.9.4 Conducting the functional interview

A good functional analysis usually requires a conversation with the business or finance team. Written questionnaires help, but they are not enough. The person preparing the study should speak to someone who understands the transaction. In a small company this may be the promoter or finance head. In a larger company it may be the tax manager, plant head, sales head, procurement manager or operations manager. The questions should be simple and factual.

For a distributor, the questions could be around who finds customers, who negotiates prices, who decides discounts, who imports goods, who stores goods, who bears damage in storage, who collects from customers, who bears bad debts, who handles warranty, who decides marketing spend and who approves annual targets. For a manufacturer, relevant questions would be who buys raw material, who decides production schedule, who owns technology, who controls quality standards, who bears scrap, who owns finished goods, who sells to customers and who bears capacity risk. Further, for a service provider, questions could be addressed such as who gives work, who supervises employees, who reviews output, who owns deliverables, who bears rework cost and how fees are computed.

The answers should then be compared with agreements and accounts. Where significant factual clarifications emerge during the interview, the professional should suitably document the discussion through meeting notes or internal memoranda, as these may assist in explaining the factual basis of the TP Study during future assessments. Where interview responses and documentary evidence are consistent, the reliability of the TP Study is significantly enhanced. If the agreement says that the AE bears inventory risk but the Indian books show inventory write-off, the inconsistency should be noted internally and addressed. If the company says that services were received but cannot identify the recipient department, the evidence is weak. If the company says that the AE controls pricing but local e-mails show independent negotiation by the Indian team, the functional character may need reconsideration.

This is particularly important because TP assessments often take place several years after the relevant financial year. Employees who participated in the transactions may no longer be available and discussion obtained may be lost over time. Accordingly, documentary evidence serves as an objective record of the FAR analysis of the parties involved in the controlled transactions.

Inconsistencies between interview responses, contractual arrangements and accounting records reveal issues that may require further investigation before finalising the TP Study.

Practical observation points are discussed below. Such observations should prompt additional review, collection of supporting evidence and, where necessary, reconsideration of the TP analysis before the study is finalised.

Observation During Interview	Potential Concern
Employees cannot explain services received from AE	Benefit test or service substantiation risk
No supporting emails or reports for management services	Evidence deficiency
Agreement differs from actual conduct	Functional characterisation risk
Unclear approval authority for major decisions	Risk control concerns
Significant functions omitted from TP documentation	Incorrect FAR analysis
New business activities not documented	Incomplete TP Study
Segmental profitability unavailable	Benchmarking challenges
Different responses from different departments	Reliability of factual position

An illustrative evidence checklist is provided below. The list should be tailored depending on the nature of the international transaction under review.

Area	Supporting Documents
Organisation Structure	Group organisational charts, reporting structures, department-wise hierarchy
Employee Functions	Job descriptions, employment contracts, reporting matrices
Operational Activities	Standard operating procedures (SOPs), process manuals, workflow documents
Decision Making	Approval matrices, delegation of authority documents, board minutes
Service Transactions	Service requests, deliverables, project reports, timesheets
Management Services	Email correspondence, meeting minutes, presentations, advisory reports

Technology and Intangibles	Software licences, technology agreements, user access records
Distribution Activities	Customer contracts, pricing approvals, dealer agreements
Manufacturing Activities	Production reports, quality manuals, capacity utilisation records
Financial Transactions	Loan agreements, interest calculations
Cost Allocations	Allocation workings, recharge schedules, supporting invoices

3.10 Economic Analysis in TP Study

3.10.1 Selection of Tested Party

The tested party is the participant in the controlled transaction whose financial results are compared with those of independent enterprises for purposes of determining whether the transaction satisfies the arm's length principle.

In practice, the tested party is generally the entity that performs the less complex functions, does not own unique or valuable intangibles, and assumes relatively limited risks. The reason for this approach is that reliable comparable data is more readily available for routine entities than for entities performing unique functions or owning significant intellectual property. The objective is to minimise the number of adjustments required to achieve comparability and thereby improve the reliability of the analysis.

The selection of the tested party is a critical step because it influences every subsequent aspect of the TP analysis. An inappropriate tested party selection may lead to unreliable benchmarking results and may significantly affect the conclusions of the TP Study.

The rationale for the tested party selection should be documented in the TP Study and should be consistent with the conclusions reached during the functional analysis. The tested party should ordinarily remain consistent across similar transactions and years unless there is a material change in the functional profile or business model, in which case the reasons for such change should be appropriately documented.

3.10.2 Selection of the Most Appropriate Method (MAM)

Section 92C (1) of the Act prescribes six methods for computing the arm's length price: the Comparable Uncontrolled Price ("CUP") Method, the Resale Price Method ("RPM"), the Cost-Plus Method ("CPM"), the Profit Split Method ("PSM"), the Transactional Net Margin Method ("TNMM"), and such other method as may be prescribed by the Board. Rule 10B provides detailed guidance on the mechanics of each method, while Rule 10AB prescribes the "other method", and Rule 10C lays down the criteria governing the selection of the most appropriate method ("MAM").

The concept of MAM, consistent with Chapter II of the OECD Guidelines, recognizes that selection must be guided by the nature of the controlled transaction, the availability and reliability of comparables, and the economic circumstances surrounding the transaction.

Rule 10C (2) of the Rules enumerates the factors that must be considered in selecting the most appropriate method:

- The nature and class of the international transaction or specified domestic transaction;
- The class or classes of AEs entering into the transaction and the FAR analysis;
- The availability, coverage, and reliability of data necessary for application of the method;
- The degree of comparability between the controlled and uncontrolled transactions, including the reliability of comparability adjustments, if any;
- The extent to which reliable and accurate adjustments can be made to account for differences, if any, between the international transaction and the comparable uncontrolled transactions or between the enterprises entering into such transactions; and
- The nature, extent, and reliability of assumptions required to apply the method.

Comparable Uncontrolled Price Method

The CUP method is the most direct method for determination of the arm's length principle. It compares the price charged in a controlled transaction with the price charged in a comparable uncontrolled transaction either an internal CUP, where the taxpayer itself transacts in the same or similar property or services with independent parties, or an external CUP, where market data for comparable independent transactions is available. Where a reliable CUP can be established, it is generally the most appropriate method, as it provides a direct market-based reference point for the arm's length price.

The conditions for reliable application of the CUP method are stringent. The property transferred or the service provided must be identical, or at least very similar, to that involved in the uncontrolled transaction. The contractual terms must be comparable and the economic circumstances of the transaction, including the level of the market at which the transaction takes place and the geographic market, must also be comparable. Where differences exist on any of these dimensions, adjustments must be made, and the reliability of the CUP method diminishes as the scope and subjectivity of the adjustments increase.

Resale Price Method

The RPM determines the arm's length price by deducting an appropriate gross margin from the price at which the tested party the reseller sells the property to independent customers. The gross margin represents the reseller's remuneration for its distribution and selling functions, taking into account the assets it employs and the risks it assumes in connection with those functions.

The RPM is most reliably applied where the reseller adds limited value to the property beyond making it available to customers that is, where the reseller does not significantly process, modify, or enhance the property and does not hold significant intangibles that contribute to the product's value. The gross margin benchmark must be derived from comparable independent resellers performing similar functions and bearing similar risks.

The reliability of the RPM is sensitive to the consistency of accounting practices between the tested party and the comparables, particularly in the treatment of selling expenses and the classification of costs between cost of goods sold and operating expenses. Where the comparables' gross margin data is not available or is unreliable, the TNMM applied at the operating margin level is used as an alternative that is less sensitive to accounting classification differences.

Cost Plus Method

The CPM determines the arm's length price by adding an appropriate gross mark-up to the costs incurred by the tested party in performing its functions. The gross mark-up represents the return earned for the manufacturing, processing, or service functions undertaken, taking into account the assets employed and risks assumed.

The CPM is generally applied where the tested party performs manufacturing or service activities for an associated enterprise and reliable information regarding comparable gross mark-ups is available. The method is particularly relevant in situations involving contract manufacturing, toll manufacturing, and certain intra-group service arrangements.

As with the RPM, the reliability of the CPM is sensitive to differences in accounting practices and cost classifications adopted by the tested party and the comparable companies. Variations in the treatment of direct costs, overhead allocation methodologies, and inventory accounting practices may significantly affect gross profit margins and impair comparability.

In practice, the application of CPM in India is often constrained by the limited availability of reliable gross margin data of comparable independent enterprises. Further, differences in FAR profiles, and cost structures may make it difficult to identify suitable comparables. Consequently, taxpayers frequently rely on the TNMM in circumstances where a reliable application of CPM is not feasible.

Transactional Net Margin Method

The TNMM compares the net profit margin earned by the tested party from a controlled transaction, relative to an appropriate base such as costs, sales, or assets, with the net profit margins earned by comparable independent enterprises. Since the comparison is undertaken at the net profit level, the method is generally less sensitive to product differences and certain accounting variations than methods based on price or gross margins.

Owing to practical limitations in obtaining reliable price-level or gross margin data, TNMM has emerged as the most widely applied TP method in India. The method is particularly relevant where the tested party performs routine functions and reliable comparable companies can be identified using publicly available databases.

The selection of comparables under TNMM requires a detailed evaluation of the FAR of the tested party and the comparable companies. While Indian databases provide extensive financial information across several industries, challenges continue to arise in relation to specialised sectors, companies with diversified operations, and the availability of reliable segmental information.

The application of TNMM also requires careful determination of the appropriate Profit Level Indicator (PLI) and the treatment of operating and non-operating items. In the Indian TP context, issues such as the treatment of foreign exchange gains and losses, warranty provisions, provisions for doubtful debts, and interest on trade receivables have frequently been the subject of dispute. Accordingly, consistency in the computation of margins for both the tested party and the comparable companies assumes significant importance.

Profit Split Method

The PSM is most appropriate where the controlled transaction involves contributions by both parties that are unique and valuable, such that neither party can be identified as a reliable tested party against independent benchmarks. This may occur where each party holds unique intangibles that are combined in generating the overall profit, where the transaction is so highly integrated that it cannot be disaggregated, or where the risks assumed by each party are so intertwined that a one-sided analysis would produce a distorted result.

Under the contribution analysis, the combined profit is divided between the parties in a single step, by reference to the relative value of their respective contributions, assessed by reference to market data for comparable functions where available.

Under the residual profit split analysis, the combined profit is divided in two stages: first, a routine return is allocated to each party for its non-unique contributions, by reference to comparable independent enterprises; and second, the residual profit representing the return to unique and valuable contributions is divided between the parties on the basis of a further comparability analysis.

The PSM is the most complex of the prescribed methods and requires the most extensive data, including reliable information on the combined profits of the arrangement and on the relative contributions of each party.

The application of the PSM in the context of intangible related transactions is informed by the DEMPE framework that is, the analysis of which party or parties perform the functions of Development, Enhancement, Maintenance, Protection, and Exploitation of the intangible.

Under this framework, the allocation of profit from the intangible is determined by reference to which party exercises control over each of the DEMPE functions and bears the associated risks, with "control" understood in the functional sense of the capacity to make decisions regarding the development and management of the intangible and to manage the risks associated with those functions.

Accordingly, where an Indian entity performs substantive development or enhancement functions with respect to a group intangible for example, by conducting core research and development, building proprietary software capabilities, or significantly improving a licensed technology it should be entitled to a share of the profits derived from that intangible beyond a routine service return, and the PSM provides the mechanism for such remuneration.

Other Method

The Other Method, introduced by the Finance Act, 2012, provides that where none of the five prescribed methods can be reliably applied to determine the arm's length price, the price may be determined by any other method that takes into account the price that would be charged or paid, or the profit that would be earned, between independent parties in a comparable uncontrolled transaction. This residual category is intended to provide flexibility where the prescribed methods are not suited to the nature of the transaction.

The other method is not a method of last resort in the sense that it requires exhaustion of all prescribed methods before it can be invoked. Rather, it may be selected as the MAM where the practitioner can demonstrate that it provides a more reliable measure of the arm's length price than any of the prescribed methods. In practice, Rule 10AB is most commonly relied upon for transactions involving the valuation of hard-to-value intangibles, business restructurings, and other arrangements for which established valuation techniques are more appropriate than the prescribed TP methods.

Practical Challenges in Method Selection

In practice, method selection in the Indian TP context presents several challenges. The availability of robust external comparable data has historically been a concern, particularly for transactions involving unique intangibles, financial arrangements, or intra-group services. The information asymmetry between the taxpayer and the revenue authorities, and the limited publicly available data often necessitate reliance on the TNMM even where a more direct method might theoretically be preferable.

Further, the requirement under Rule 10C(1) to demonstrate that the selected method is the “most appropriate” places a burden on taxpayers to document the reasons for not adopting each alternative method.

3.10.3 Benchmarking Analysis and Comparable Search

The benchmarking analysis constitutes the core of the economic analysis in a TP study. Its primary purpose is to identify uncontrolled transactions or enterprises that are sufficiently comparable to the controlled transaction under review, so as to establish a reliable arm’s length range. The process involves the formulation of a search strategy, application of screening criteria, and a qualitative assessment of the resulting set of comparables.

In the Indian TP context, benchmarking analyses are predominantly conducted using commercial databases such as Prowess, Ace TP, Capitaline, TP Catalyst, S&P Capital IQ, Loan Connector, Bloomberg, RoyaltyStat, RoyaltyRange and other recognised TP databases. Depending on the underlying transaction and the jurisdiction of the tested party, these databases provide access to financial information, royalty and licensing agreements, loan and financing transactions, corporate guarantee arrangements, and other market data that facilitate the identification of comparable uncontrolled transactions or enterprises for TP purposes.

Search Strategy Formulation

The OECD Guidelines recommend a two-sided approach beginning with a broad search and progressively narrowing the universe through the application of quantitative and qualitative filters.

The starting point is typically the identification of the appropriate National Industrial Classification (“NIC”) codes or Standard Industrial Classification (“SIC”) codes corresponding to the business activity of the tested party.

Quantitative and Qualitative Filters

Quantitative filters serve to exclude entities whose financial characteristics render them unsuitable as comparables. Depending on the business activity being benchmarked, the quantitative filters may be applied suitably. Qualitative filters, by contrast, involve a review of the business description, product profile, and functional characterization of each candidate entity to assess its comparability with the tested party.

Related Party Transaction Filter

Entities that derive a significant proportion of their revenues from related party transactions are excluded, as their financial results may not reliably reflect arm's length pricing. In practice, a threshold of 25% related party revenue is commonly applied, though the precise cut-off may vary depending on the facts. The rationale is that a company whose operating results are themselves influenced by non-arm's length transactions cannot serve as a reliable uncontrollable benchmark.

Multiple Year Data

Rule 10B(4) of the Income-tax Rules, 1962 (the Rules), mandates that the determination of an arm's length price shall, as a general rule, be based on data relating to the financial year in which the international transaction or specified domestic transaction was entered into.

By virtue of the **proviso to Rule 10B(4), read with Rule 10B(5)**, where data for the current financial year is unavailable at the time of furnishing the return of income under section 139(1), data relating to the immediately preceding financial year may be utilized. However, such reliance is provisional and remains subject to subsequent substitution or updation with the current-year data as and when it becomes available during the course of assessment proceedings.

Furthermore, pursuant to **Rule 10CA of the Rules**, where the arm's length price is computed using the "range concept", data relating to the current financial year must be analyzed in conjunction with data from the two immediately preceding financial years, strictly subject to the fulfillment of the qualifying conditions prescribed therein.

Consequently, the invocation of multiple-year data is not an matter of general administrative discretion or an optional alternative for the assessee; rather, it is a strictly regulated statutory mechanism permissible only under the explicit conditions and methodology prescribed under Rules 10B(4), 10B(5), and 10CA.

Computation of the Arm's Length Price

Having identified a set of reliable comparables, the next step in the economic analysis is the computation of the Profit Level Indicator ("PLI") for each comparable and for the tested party, and the determination of the arm's length range. This phase of the analysis requires careful attention to the treatment of non-operating items, segmental data, and the quantification of comparability adjustments.

The profit level indicator is the ratio by reference to which the profitability of the tested party is measured and compared against the arm's length range derived from comparable independent enterprises. The objective is to select an indicator that most closely reflects the value-generating activities of the tested party and provides a reliable basis for comparison with independent enterprises.

The selection of the appropriate PLI is governed by the facts and circumstances of the controlled transaction under analysis, and three considerations are of utmost importance: a) the characterization of the tested party's business, b) the availability and reliability of comparable data, c) and the extent to which the chosen PLI is likely to produce a reliable measure of arm's length profit. In computing the numerator and denominator of the PLI, only items that are directly or indirectly related to the controlled transaction and are of an operating nature should be included; items attributable to non-operating activities or items that are not present in the independent party transactions being benchmarked must be excluded to ensure comparability.

3.10.4 Comparability Adjustments

The reliability of a benchmarking analysis depends not only on the selection of comparable companies but also on the extent to which material differences between the tested party and the comparables are identified and appropriately addressed. The differences between controlled and uncontrolled transactions may affect comparability and that adjustments may be necessary where such differences materially influence profitability.

Accordingly, taxpayers should evaluate whether any adjustments are required to improve the reliability of the comparison and should document the basis and methodology adopted for such adjustments.

In practice, following are the most commonly encountered adjustments in TP analyses:

Adjustment	Purpose	Typical Applicability
Working Capital Adjustment	Eliminate impact of receivable, payable and inventory differences	Service providers, distributors, manufacturers
Risk Adjustment	Account for differing risk profiles	Captive entities vs independent comparables
Capacity Utilisation Adjustment	Neutralise impact of abnormal fixed cost absorption	Manufacturing entities
Foreign Exchange Adjustment	Ensure consistent treatment of exchange fluctuations	Cross-border transactions involving foreign currency exposure

3.10.5 Computation of arm's length range

Rule 10CA specifies that, where the prescribed conditions are satisfied and the most appropriate method is CUP, RPM, CPM or TNMM, the arm's length range is computed as the 35th to the 65th percentilespecifically, the range from the 35th to the 65th percentile of the data set in case of 6 or more comparables. Where the tested party's PLI falls within this range, no TP adjustment is warranted. If the PLI falls outside the range, the arm's length price is taken as the median of the range.

Where the dataset comprises fewer than six comparables, Rule 10CA(3) provides that the arm's length price is the arithmetic mean of the PLIs of the comparables. It is therefore in the taxpayer's interest to strive for a dataset of at least six robust comparables, as this enables the use of the 35th to the 65th percentile, which is generally more flexible than the arithmetic mean approach.

Finally, the report should present the calculation of the arm's length price and conclusion for each transaction. For one-sided methods, show how the margin or markup leads to an ALP and for two-sided, show how profits are split. This concludes the quantitative analysis required by the Rule.

3.11 Year-End TP Review Checklist

The following sample checklist may be used as part of the year-end TP compliance review to identify potential risks, documentation gaps and corrective actions prior to finalization of accounts and preparation of Form No. 3CEB.

Area	Review Point
Transaction Identification	Have all international transactions and specified domestic transactions been identified?
	Has the related-party ledger been reviewed for completeness?
	Have all transactions been appropriately classified (goods, services, royalty, loans, guarantees, reimbursements, etc.)?
	Have year-end accruals, provisions and journal entries been reviewed for TP implications?
	Have all Associated Enterprises been identified and updated for the year?
Reconciliation Review	Do transaction values reconcile with the general ledger?
	Do transaction values reconcile with the audited financial statements?
	Do transaction values reconcile with Form No. 3CEB disclosures?
Inter-company Agreements	Are all material transactions supported by written agreements?
	Are agreements valid for the relevant financial year?
	Is the pricing mechanism consistent with the agreement?
	Is actual conduct consistent with contractual terms?
	Have any new agreements been executed during the year?
FAR Analysis Review	Have there been any changes in FAR?
	Has there been any business restructuring or change in operating model?

	Have new products, services or business segments been introduced?
	Does the existing characterization remain appropriate?
Economic Analysis Review	Is the selected TP method still appropriate?
	Has benchmarking been refreshed where necessary?
	Have significant changes in profitability been analysed?
	Have comparability adjustments been evaluated?
One-Time Transactions	Have acquisitions, mergers, demergers or reorganizations been reviewed?
	Have transfers of assets, intangibles or functions been identified?
	Have extraordinary expenses or one-time transactions been separately analysed?
Financing Transactions	Have inter-company loans been reviewed?
	Have corporate guarantees been analysed?
	Have outstanding receivables and payables been evaluated?
	Have cash pooling or treasury transactions been reviewed?
Documentation Review	Is Rule 10D documentation complete?
	Are agreements, invoices and supporting evidence available?
	Is supporting evidence for management services available?
	Are cost allocation workings available and supportable?
	Is consistency maintained with Master File and CbCR disclosures?
TP Adjustments	Do actual margins fall within the arm's length range?
	Are year-end TP adjustments required?
	Have tax, GST and customs implications including secondary adjustment been assessed?
	Has supporting documentation for the adjustment been maintained?

3.12 Transaction Wise Compliance Checklist

The nature of documentation required for TP purposes varies depending on the type of controlled transaction. While certain documents, such as financial statements, inter-company agreements, and benchmarking analyses, are commonly relevant across transactions, each category of international transaction also has specific documentation requirements based on its commercial and economic characteristics.

The following transaction-wise checklists provide a practical reference for professionals to identify the key information, supporting documents, and evidence that should be obtained and maintained while preparing the TP Study Report. These checklists are intended to facilitate systematic data collection, ensure consistency between the TP policy and actual conduct of the parties, and strengthen the defensibility of the TP position during audits and assessments. The checklist should be applied based on the nature of the transaction and may be supplemented with additional documentation depending on the specific facts and circumstances of each case.

S.No	Nature of transaction	Checklist
1	Manufacturing / Trading Activities – Purchase & Sale of Goods	• Intercompany pricing policy and pricing methodology • Internal / external CUP data and benchmarking support • Intercompany agreements, invoices, purchase orders, and rate cards • Credit terms, delivery terms (Incoterms), and payment arrangements • Volume discounts, rebate policies, and annual pricing mechanisms • Product return / warranty policies and abnormal loss treatment • Customs valuation consistency with TP positions • Production capacity, utilization, inventory, and procurement records

		• BOMs, technical specifications, and quality control documentation • Evidence supporting commercial rationale and prevailing market conditions • Segmental profitability and product-wise margins, where relevant
2	Service Transactions	• Intercompany service agreements clearly defining scope and nature of services • Documentation evidencing actual rendition and receipt of services • Roles and responsibilities of service provider and recipient entities • Cost allocation methodology and mark-up policy • Billing arrangements, invoices, and supporting correspondence • Employee details, time sheets, deliverables, and project reports • Internal / external benchmarking support • Evidence of commercial benefit derived by recipient entity • Credit period and payment terms
3	Management Fee/Intra Group Services	• Intercompany agreements and service descriptions • Allocation keys and basis of cost allocation • Global cost pool workings and recharge computations • Third-party invoices and internal cost support • Benefit test documentation and commercial need analysis • Emails, presentations, reports, and evidence of services availed

		• Organization structure and profiles of global/shared service teams • Documentation supporting absence of shareholder activities • Categorization – Pass through Costs, Low value adding, High value adding Services • Benchmarking support for mark-up applied
4	Royalty/ IP Transactions	• License agreements defining nature and scope of IP usage • DEMPE analysis and ownership of intangibles • Details of patents, trademarks, know-how, and technology used • Commercial rationale and expected benefits from IP usage • Royalty benchmarking studies and comparable licensing arrangements • Internal CUPs, group royalty arrangements, or third-party references • Market positioning and industry practices relating to royalty rates • Financial analysis demonstrating impact of IP on profitability • Evidence of actual use of technology, brand, or know-how
5	Interest on Loans	• Loan agreements and board approvals • Purpose of funding and utilization of borrowed funds • Nature of instrument (loan, quasi-equity, OCD, CCD, etc.) • Tenor, currency, repayment terms, and security arrangements • Credit rating analysis and borrower profile

		• External benchmarking using databases or market quotations • Comparable uncontrolled transactions/internal CUPs, if available • Interest workings and repayment schedules • Documentation supporting source and need for funds

3.13 Practical issues in preparing TP study

TP study in India is governed by Sections 92 to 92F of the Act, and requires meticulous preparation of reports, most notably Form No. 3CEB. While the regulatory framework is well-established, practitioners routinely encounter a range of practical challenges that can compromise the quality, completeness, and timeliness of TP study. The key issues are discussed below.

Incomplete client information

One of the most pervasive challenges is the inability to obtain complete and accurate information from clients. Multinationals often have complex group structures, yet taxpayers frequently fail to provide a comprehensive overview of related-party transactions, functional profiles, or the nature of their business arrangements. Missing details such as the characterization of services, the basis for cost allocations, or the terms of intra-group loans, make it difficult to select the appropriate TP method or benchmark transactions effectively. This results in iterative back-and-forth, delays, and the risk of filing reports with gaps that may invite scrutiny.

Lack of segmental accounts

Many Indian entities engage in both domestic and international transactions but maintain consolidated accounts without segment-level breakdowns. When a Transactional Net Margin Method (TNMM) is applied, the absence of segmental accounts makes it nearly impossible to isolate the profitability attributable to controlled transactions. Practitioners are often required to construct segmental data using allocation keys, which introduces subjectivity and increases the risk of rejection during assessments. The OECD and Indian TP regulations increasingly expect granular segmentation, making this a critical documentation gap.

Inconsistent agreements

Inter-company agreements form the contractual basis for related-party transactions and must align with the economic substance reflected in the TP report. In practice, agreements are often outdated, generic, or absent altogether. Discrepancies between the terms of agreements and actual transaction conduct such as revised pricing arrangements, changes in service scope, or altered risk profiles create inconsistencies that are difficult to reconcile. Tax authorities scrutinize such inconsistencies closely. Ensuring that agreements are contemporaneous, specific, and consistent with actual conduct remains a persistent challenge.

ERP and accounting system limitations

Enterprise Resource Planning (ERP) systems and accounting platforms vary widely in their ability to capture TP-relevant data. Many companies' ERP systems are not configured to track related-party transactions separately or generate TP-specific reports. Extracting transaction-level data such as individual invoices, recharge amounts, or cost-sharing contributions often requires manual intervention and customized MIS reports. Additionally, different subsidiaries within a group may operate on disparate systems (e.g., SAP vs. Oracle vs. Tally), making data consolidation time-consuming and prone to errors.

Reconciling Form No. 3CEB with financial statements

Form No. 3CEB must reconcile precisely with the audited financial statements. However, differences in classification such as transactions reported under multiple heads, netting of payables and receivables, or amounts included in capital accounts frequently result in mismatches. Currency conversion differences, year-end accruals, and adjustments posted after the reporting period add further complexity. A single unexplained variance can trigger detailed queries from the Assessing Officer, making a thorough reconciliation exercise both critical and time-intensive.

Data integrity and documentation gaps

Robust TP documentation must be supported by reliable, accurate, and verifiable data. In practice, taxpayers frequently encounter challenges arising from inconsistencies between various source documents, such as statutory financial statements, management reports, board presentations, tax computations, and TP workings. Accordingly, it is essential to maintain a clear audit trail that reconciles the amounts reported in Form No. 3CEB and the TP study with the underlying books of account, ledgers, invoices, and supporting records.

Year-end TP adjustments

One of the most common practical challenges is determining whether year-end TP adjustments are required to align the tested party's profitability with the arm's length outcome. Such adjustments require careful consideration of the underlying TP policy, accounting treatment, GST, customs, withholding tax, foreign exchange regulations, corresponding adjustments in the counterparty jurisdiction, and the possible applicability of the secondary adjustment provisions under Section 92CE of the Act. The TP Study should clearly explain the commercial rationale, computation and implementation of any year-end TP adjustment, together with an assessment of its consequential tax and regulatory implications.

3.14 Conclusion

A robust TP Study begins with accurate identification of transactions, proceeds through a careful understanding of business operations and functional profiles, and culminates in a well-supported economic analysis. Each stage is interdependent, and weaknesses at any stage can affect the reliability of the final conclusion.

The preparation of TP reports in India demands not only technical proficiency but also strong project management and client coordination. Addressing these practical issues requires early engagement with clients, standardized data-gathering templates, robust internal review protocols, and investment in technology to streamline data extraction and reconciliation. Proactive management of these challenges significantly reduces audit risk and ensures that the final documentation withstands regulatory scrutiny.

Chapter 4
Master File

4.1 Introduction

The Master File forms one of the three pillars of the TP documentation framework introduced under BEPS Action Plan 13. Unlike the TP Study Report (Local File), which focuses on entity-specific international transactions, the Master File provides a high-level overview of the multinational enterprise (MNE) group's global business, organisational structure, value drivers, intangibles, financing arrangements and overall TP policies. It enables tax authorities to evaluate the taxpayer's international transactions within the broader context of the group's global operations and value creation.

4.1.1 Evolution of Master File in India

The Master File documentation requirement originates from Action 13 of the OECD/G20 Base Erosion and Profit Shifting (BEPS) Project, which introduced a standardised three-tier TP documentation framework comprising the Master File, Local File and Country-by-Country Report (CbCR). Pursuant to its commitment as a member of the OECD/G20 BEPS Inclusive Framework, India implemented these recommendations of BEPS Action Plan 13 by introducing a three-tier documentation framework, including Master File and Country-by-Country Reporting, and amending provisions such as section 92D and inserting section 286 of the Income-tax Act, 1961. This marked a significant shift towards enhancing transparency, enabling effective risk assessment by tax authorities.

4.1.2 Legislative framework

Section 92D was broadened to move beyond entity-specific documentation and require multinational group entities to maintain standardised information at the group level, capturing the overall structure, operations, and TP framework of the group. This shift ensured that tax authorities are not limited to isolated transaction data but are able to evaluate TP in the context of the group's global business model and value creation.

Building on this, Rule 10DA was introduced to give practical effect to the Master File requirement, by clearly outlining the type of information to be maintained, the applicability thresholds, and the manner of reporting. It establishes a structured format for disclosure covering key aspects such as group organisation, business activities, intangibles, and financial arrangements, thereby providing a standardised framework for maintaining and reporting group-level TP information within the Indian TP regime. The reporting obligation is operationalised through Form No. 3CEAA, while the procedural aspects relating to filing by constituent entities and designated entities are governed by Rule 10DA(4) and Form No. 3CEAB, wherever applicable. Accordingly, a proper understanding of the statutory provisions, prescribed rules and reporting forms is essential for ensuring complete compliance with the Master File requirements.

4.2 Applicability, Definitions and Thresholds

The detailed Master File requirements contained in Part B of Form No. 3CEAA apply only where the consolidated group-revenue threshold and the relevant international-transaction threshold prescribed under Rule 10DA(1) are satisfied. Part A is required to be furnished independently of these thresholds. These requirements are triggered:

- if the consolidated group revenue of the international group, of which the taxpayer is a constituent entity, as reflected in the consolidated financial statement of the international group for the accounting year, **exceeds INR 500 Crore**

  AND

- the aggregate value of international transactions of the taxpayer:
  - during the accounting year, as per the books of account, **exceeds INR 50 Crore**

    OR

  - in respect of purchase, sale, transfer, lease or use of intangible property during the accounting year, as per the books of account, **exceeds INR 10 Crore**

4.2.1 Key definitions

For the purposes of CbCR, section 286(9) of the Act defines the following key terms:

- Accounting year
    - a previous year, in a case where the parent entity is resident in India or
    - an annual accounting period, with respect to which the parent entity of the international group prepares its financial statements under any law for the time being in force or the applicable accounting standards of the country or territory of which such entity is resident, in any other case
- Constituent entity:
    - any separate entity of an international group that is included in the consolidated financial statement of the said group for financial reporting purposes, or may be so included for the said purpose, if the equity share of any entity of the international group were to be listed on a stock exchange
    - any such entity that is excluded from the consolidated financial statement of the international group solely on the basis of size or materiality or
    - any permanent establishment of any separate business entity of the international group included in sub-clause (i) or sub-clause (ii), if such business unit prepares a separate financial statement for such permanent establishment for financial reporting, regulatory, tax reporting or internal management control purposes
- "Consolidated financial statement" means the financial statement of an international group in which the assets, liabilities, income, expenses and cash flows of the parent entity and the constituent entities are presented as those of a single economic entity
- "International group" means any group that includes:
    - two or more enterprises which are resident of different countries or territories or
    - an enterprise, being a resident of one country or territory, which carries on any business through a permanent establishment in other countries or territories

4.2.2 Checklist to evaluate the applicability of Master File

Steps	Particulars	Documents to verify/ Questions to ask
Step 1	Identify if the taxpayer is part of an international group	Are there two or more enterprises in the group? o If yes - are they situated in different countries? - Yes, proceed to next step o If no - does the international group's structure involve a PE situated in a country other than the residence of the relevant enterprise? - Yes, proceed to next step. Note: This step is intended only to determine whether the taxpayer forms part of an international group for the purposes of the Indian Master File provisions. The mere existence of an enterprise carrying on business through a permanent establishment in another jurisdiction does not, by itself, trigger a Master File filing obligation in India. The taxpayer should also qualify as a constituent entity, and the other applicability conditions prescribed under Rule 10DA, including the applicable thresholds, should be satisfied.
Step 2	Identify if the taxpayer is a constituent entity (CE)	Are the financials (FS) of taxpayer included in the consolidated financial statements (CFS) prepared by the group o If yes - proceed to next step o If no - would the FS of taxpayer have been included in CFS if any entity of group were listed in stock exchange? – Yes, proceed to next step o If no - is the taxpayer’s FS excluded from CFS solely based on materiality or size? - Yes, proceed to next step

		Note: A PE is also considered as constituent entity if it prepares separate financial statements
Step 3	Identify how taxpayer is consolidated in CFS	Is the FS of taxpayer consolidated in the group CFS using line-by-line method (i.e., assets, liabilities, income, expenses and cash flows of the parent entity and the constituent entities are presented as those of a single economic entity)? o If yes – proceed to next step o If no (e.g., the taxpayer is accounted for under the equity method as an associate or joint venture), it would generally not qualify as a constituent entity. Accordingly, the Master File provisions would ordinarily not apply. However, the conclusion should be evaluated with reference to the statutory definition of a constituent entity under section 286 of the Act.
Step 4	Evaluate consolidated revenue threshold	Is the taxpayer a parent entity preparing CFS? o If yes - same period as followed by the taxpayer which is April to March o If no - consider the corresponding fiscal year of group for which CFS is prepared. Is the consolidated revenue for the accounting period identified above exceeds INR 500 Crore? o If yes – proceed to next step. Else, Master File not applicable *Note: The rate of exchange for the calculation of the value in rupees of the consolidated group revenue in foreign currency shall be SBI telegraphic transfer (TT) buying rate of such currency on the last day of the accounting year.*

		Where the group prepares multiple sets of consolidated financial statements (for example, statutory and management consolidation), the taxpayer should consistently rely on the consolidated financial statements prepared by the Ultimate Parent Entity for financial reporting purposes.
Step 5	Evaluate international transactions value threshold	For this step, taxpayer's FS must be considered. In other words, CFS is not relevant to compute the threshold. Therefore, the applicable accounting year is the taxpayer's fiscal year. Is the aggregate value of international transactions during the year more than INR 50 Crore? o If yes - Master File applicable o If no - Is aggregate value of international transactions with respect to intangible property more than INR 10 Crore? – Yes, Master File applicable. Else, Master File not applicable The threshold should be evaluated based on the aggregate value of international transactions recorded in the books of account for the relevant accounting year, irrespective of whether such transactions ultimately require an arm's length adjustment.

4.2.3 Practical scenarios and FAQs

1. For computing the threshold as per Step 5 above, does transactions that have bearing on profit/ loss to be considered or all international transactions as per Section 92B such as loans given/ repaid, outstanding payables/ receivables etc to be considered.

It is advisable to consider all transactions that qualify as international transaction under Section 92B, as the threshold mechanism is intended only to reduce the compliance burden of Master File requirements for smaller entities and does not impact the determination of income or loss.

2. **Are foreign entities that do not file a return of income due to an exemption under Section 115A required to comply with Master File regulations?**

Yes, where a foreign entity meets the prescribed conditions (as outlined above), it would be required to comply with the Master File regulations, irrespective of its exemption from filing a return under Section 115A. However, since the due date for filing the Master File is linked to the due date for filing the income tax return under Section 139(1), the applicable due date becomes unclear and would need to be evaluated based on the specific facts and circumstances.

3. **Whether only those international transactions to which TP provisions under Section 92 apply are to be considered for computing the threshold under Step 5?**

No. All transactions that satisfy the definition of international transaction under Section 92B are required to be considered, regardless of whether TP provisions are specifically applicable to such transactions.

4. **Are extraordinary income and gains from investment activities included in total consolidated group revenue?**

In this regard, guidance may be drawn from the OECD's Guidance on the Implementation of Country-by-Country Reporting, which provides that all revenue reflected (or that would be reflected) in the consolidated financial statements should be considered. Accordingly, a jurisdiction in which the Ultimate Parent Entity is resident may require the inclusion of extraordinary income and gains from investment activities in the total consolidated group revenue, where such items are presented in the consolidated financial statements in accordance with the applicable accounting standards.

5. **Whether specified domestic transactions are considered for the Master File threshold?**

No. The threshold under Rule 10DA refers only to international transactions.

The applicability analysis should be documented contemporaneously and retained as part of the taxpayer's TP documentation, even where it is concluded that the Master File provisions are not applicable.

4.3 Structure, Forms and Filing Requirements

The Master File reporting framework in India is primarily governed by Rule 10DA of the Income-tax Rules, 1962, which prescribes the documentation requirements, applicability thresholds and manner of furnishing Form No. 3CEAA. In addition, Rule 10DA(4) prescribes the mechanism for notifying the designated constituent entity through Form No. 3CEAB where multiple constituent entities are eligible to furnish the Master File on behalf of the international group.

In this context, Form No. 3CEAA is the prescribed form for furnishing the Master File by constituent entities, covering both basic entity-level details and comprehensive group-level information. The information and documents specified in Form No. 3CEAA shall be kept and maintained for a period of eight years from the end of the relevant assessment year.

Form No. 3CEAB acts as a notification mechanism to designate a single constituent entity to furnish the Master File on behalf of the international group, in cases where multiple constituent entities are otherwise required to comply with the Master File requirements.

4.3.1 Overall structure of Form No. 3CEAA:

Form No. 3CEAA is divided into two parts:

Part A → Basic entity-level details that are India specific *(such as Name, address, PAN/Aadhaar of assessee, Name & address of international group, Accounting year, Number of constituent entities in India, Details (name, PAN, address) of all Indian constituent entities)* and every constituent entity to whom the Indian Master File provisions apply is required to furnish Part A.

Part B → Detailed Master File information at the group level. Constituent entities breaching the threshold as per Rule 10DA (1) are required to file. The detailed structure of Part B is discussed in ensuing sections.

4.3.2 Overall structure of Form No. 3CEAB:

- **Designated Constituent Entity** – Name, Address, Permanent Account Number (PAN):

- **International group details** – Name of the International Group, Name of the Parent Entity, Address of the Parent Entity, Country of Residence of the Parent Entity:
- **Reporting period** – Accounting Year:
- **Declaration**
- **Verification details –** PAN of the Declarant, Address of the Declarant, Place, Date, Signature

Where only one constituent entity is required to furnish Part B of Form 3CEAA, Form No. 3CEAB is generally not required, as there is no requirement to designate a reporting entity.

4.3.3 Important timelines/ due dates to file these forms

- Form No. 3CEAA - On or before the due date for furnishing the return of income as specified under Section 139(1)
- Form No. 3CEAB - 30 days before the due date of furnishing the Form No. 3CEAA

4.3.4 Checklist to evaluate the applicability of Part A and Part B of Form No. 3CEAA

Steps	Particulars	Documents to verify/ Questions to ask
Step 1	Identify if Part A is applicable	Is the taxpayer a constituent entity of an international group? o If yes - Part A of Form No. 3CEAA must be filed irrespective of whether such constituent entity has undertaken international transactions. Proceed to Step 2 o If no - Master File not applicable
Step 2	Identify if Part B is applicable	Has the taxpayer satisfied the thresholds prescribed in Rule 10DA (1)? o If yes - Part B of Form No. 3CEAA is applicable o If no - Only Part A is applicable and the taxpayer need not fill Part B

4.4 Understanding the Information Required in Part B of Form No. 3CEAA

As discussed above, Form No. 3CEAA is divided into Part A and Part B, with Part B being applicable only where the prescribed thresholds under Rule 10DA are satisfied.

Part B comprises fourteen disclosure items, which may be broadly grouped into the following five thematic areas for ease of reference:

Item(s)	Content Area	Rule 10DA Reference	Covered in Section
1–2	Organisational Structure and Ownership	Rule 10DA(1)(a) and (b)	Section 4.4.1
3	Business Description, Value Drivers and Supply Chain	Rule 10DA(1)(c)	Section 4.4.2
4–9	Intangible Assets – Strategy, Ownership and Agreements	Rule 10DA(1)(d) to (i)	Section 4.4.3
10–12	Financial Activities – Financing and Treasury	Rule 10DA(1)(j) to (l)	Section 4.4.4
13–14	Financial and Tax Position	Rule 10DA(1)(m) and (n)	Section 4.4.5

As the disclosures contained in Part B relates primarily to the international group’s overall operations, value chain, intangible assets, financing arrangements, and financial position, the requisite information may not always be available at the level of the Indian constituent entity. In such cases, the information would generally need to be sourced from the overseas parent entity or the relevant group-level tax or finance function.

India-Specific Requirements vis-à-vis the OECD Master File Format

India's Master File requirements, as prescribed under Rule 10DA and Form No. 3CEAA, are broadly aligned with the three-tier documentation approach recommended under OECD BEPS Action Plan 13. However, Rule 10DA and Form No. 3CEAA contain several disclosure requirements that go beyond the standard OECD Master File template. This has significant practical implications: where an international group prepares its Master File in accordance with the OECD template (or the domestic law of another country that closely follows the OECD format), such a Master File will not, by itself, be sufficient for Indian filing purposes.

Practitioners receiving a group Master File prepared by or on behalf of an overseas parent must specifically identify and supplement the following items, which are required under Rule 10DA / Form No. 3CEAA but are not part of the standard OECD Master File template:

Item No. in Form 3CEAA	**India-Specific Requirement**	**Why it exceeds the OECD template**
Item 3(viii)	FAR analysis of constituent entities contributing at least 10% of group revenues, assets, or profits	The OECD template requires a general description of important contributions to value creation by individual entities. A structured FAR analysis at the group level with a specific 10% threshold is an India-specific requirement.
Item 9	Description of important transfers of interest in intangibles, including names and addresses of selling and buying entities and the compensation paid	The OECD template requires disclosure of significant transfers of intangibles. India additionally requires address of the entities
Item 10	Names and addresses of the top ten unrelated lenders to the international group	The OECD template requires a general description of financing arrangements including identification of key financing entities. Specific identification of the top ten external (unrelated) lenders by name and address is an India-specific requirement.

In practice, where an Indian constituent entity receives a group Master File prepared by or on behalf of the overseas parent, the practitioner should undertake a gap analysis against the above India-specific requirements and obtain the necessary supplementary information before filing Form No. 3CEAA. In addition, practitioners should ensure that the additional disclosures are consistent with the TP Study Report (Local File), Form No. 3CEB and other group documentation, wherever relevant. Failure to include these India-specific items, even where the underlying Master File is otherwise OECD-compliant, may expose the constituent entity to penalty consequences under Section 271AA if the omitted information is subsequently requisitioned by the tax authorities and is not furnished within the prescribed time.

4.4.1 Organisational Structure of the International Group

Items 1 and 2 of Part B of Form No. 3CEAA require the constituent entity to disclose the organisational structure of the international group. This encompasses two distinct but related requirements:

- **Item 1:** A complete list of all entities of the international group along with their addresses.
- **Item 2:** A chart depicting the legal status of the constituent entity and the ownership structure of the entire international group.

(a) List of Entities - Key Requirements

The list required under Item 1 must cover all constituent entities of the international group globally not merely those with operations in India. While Form No. 3CEAA does not prescribe a detailed format for this disclosure, taxpayers typically maintain the following information for each constituent entity to facilitate preparation of the organisational structure disclosure:

- Full legal name of the entity
- Country of incorporation or formation
- Registered address and, where different, principal place of business
- Tax identification number or registration number in the country of residence
- Nature of principal business activity

Since Form No. 3CEAA is filed online and the portal captures entity data in a structured grid, practitioners are advised to prepare a consolidated working document (e.g., a spreadsheet) listing all constituent entities before commencing portal entry. This ensures data completeness and consistency across filings.

(b) Ownership Structure Chart - Key Requirements

Item 2 requires a chart (or equivalent visual representation) depicting the legal ownership structure of the entire international group. This is the visual complement to the entity list under Item 1. The chart should enable the reader to understand, at a glance, the hierarchical relationships among group entities. The chart should reflect the following:

- The Ultimate Parent Entity (UPE) at the apex of the chart
- All intermediate holding companies and their country of residence
- The legal ownership percentages between group entities, where practicable, to clearly depict the ownership chain.

The legal form of each entity (e.g., company, limited liability partnership, trust, branch, permanent establishment)

- The Indian constituent entity or entities, clearly identified
- Branch offices and permanent establishments, with the jurisdiction of operation
- Joint ventures and entities in which the group holds a minority interest that nonetheless results in the entity qualifying as a constituent entity of the international group.

The chart is specifically a legal ownership chart and need not reflect management or functional reporting structures. Where the group has undergone a restructuring, acquisition, or divestment during the relevant accounting year, the chart should reflect the position as at the end of the accounting year.

(c) Practical Considerations

- **Obtaining group-wide data:** Indian constituent entities that are subsidiaries of foreign parents may not have direct access to a complete global entity list or updated ownership chart. Coordination with the group's global tax, legal or corporate secretarial function should therefore be initiated well in advance of the filing due date.

- **Currency of information:** The entity list and ownership chart must reflect the position as at the close of the relevant accounting year. A chart or list prepared for a prior year must not be reused without verification of any changes in the group structure.
- **Differences in accounting year:** Where different group entities follow different financial years, the Master File should clearly state the accounting year to which the information relates and note any significant structural changes during the period.
- **Format of the chart:** No specific format is prescribed. The chart may be prepared as a PDF, image file, or any other visually clear format, and annexed to or uploaded with Form No. 3CEAA at the time of filing.
- **Intermediate holding companies:** All intermediate holding entities should be included in the chart. The omission of entities in commonly used intermediate holding jurisdictions is a frequent area of inquiry during assessments.

Documentation Checklist - Organisational Structure
• Complete list of all constituent entities of the international group globally, with registered addresses • Legal form and country of incorporation of each entity • Ownership chart reflecting the full legal ownership structure of the group as at the end of the accounting year • Indian constituent entity/entities clearly identified in the ownership chart • Details of joint ventures and minority-interest entities that qualify as constituent entities • Note describing any changes in group structure during the accounting year (acquisitions, divestments, restructurings), where applicable • Confirmation that the entity list and chart are updated for the relevant accounting year and not carried forward from a prior year

4.4.2 Business Operations of the International Group

Item 3 of Part B of Form No. 3CEAA is the most comprehensive single item in the Master File. It requires a written description of the business of the international group during the accounting year, covering nine distinct elements. These are addressed below:

(a) Nature of Business and Important Profit Drivers

The description of the nature of the business should provide a reader with a clear understanding of what the international group does, across all material lines of business. It should not be restricted to the activities of the Indian constituent entity. The description of important profit drivers should identify the key factors that generate value for the group, for example, proprietary technology, brand strength, customer relationships, economies of scale, regulatory licences, or geographic presence.

The description should broadly align with the business description presented in the group's annual report, website, investor presentations (where applicable), and the Master File maintained in other jurisdictions, while being appropriately tailored to the Indian disclosure requirements.

(b) Supply Chain Description

The supply chain description is required for:

- The five largest products or services of the international group by revenue; and
- Any other product or service that amounts to more than 5% of the consolidated group revenue.

For each such product or service, the description should trace the flow of goods, services, or value from sourcing or development through to the end customer, identifying the group entities involved at each stage of the chain. The description should be sufficient to enable the tax authorities to understand how value is created, where key functions are performed, and how intra-group transactions fit within the broader supply chain.

Where the international group has multiple business verticals or product segments, the supply chain descriptions should clearly distinguish the entities performing principal functions, limited-risk activities and support functions within each value chain.

(c) Intra-Group Service Arrangements

The Master File must include a list and brief description of important service arrangements made among members of the international group, other than those for research and development services (which are addressed separately under intangibles). This includes shared service arrangements, management services, support services, secondment arrangements, and similar intra-group services. The description should cover:

- The nature of the service
- The entities providing and receiving the service
- The basis for determining the service charge, including the TP policy, allocation keys (where applicable), and pricing methodology adopted by the group.

(d) Capabilities of Main Service Providers and TP Policy for Services

- **Description of capabilities:** A brief description of the capabilities, expertise, and resources of the main service providers within the group should be included. This may cover the size of the service team, qualifications, infrastructure, and the nature of value added by the service provider.
- **TP policy for services:** The Master File must describe the TP policies applied by the group for allocating service costs and determining the prices charged for intra-group services. This includes the cost allocation methodology (e.g., direct charge, indirect charge, cost-plus) and the basis on which the benefit to the recipient entity is assessed.

(e) Major Geographical Markets

A list and description of the major geographical markets in which the group's products and services are sold should be provided. This need not be exhaustive; it should cover markets that are material to the group's revenue profile.

(f) Functional Analysis at Group Level - Entities Contributing 10% or More

Item 3(viii) requires a functions, assets, and risks (FAR) analysis of those constituent entities of the international group that contribute at least 10% of the group's revenues, assets, or profits. Practitioners are advised to note the following:

- The 10% threshold is computed with reference to the group's consolidated revenues, consolidated assets, and consolidated profits respectively. An entity may qualify under any one of the three criteria.
- The FAR analysis at the Master File level is a group-level overview. It is not the same as the detailed entity-level FAR analysis conducted in the Local File or for TP documentation under Rule 10D.
- For each qualifying entity, the practitioner should collect information on: the principal functions performed by the entity, the material assets (tangible and intangible) used or owned, and the key risks assumed by the entity in the context of the group's overall value chain.
- The practitioner should obtain this information from the group's central tax or finance function and need not independently reconstruct it from publicly available data. Since Rule 10DA does not define the terms 'revenues', 'assets', or 'profits' for the 10% threshold, the following practical approach is recommended:
    - **Revenues:** consolidated revenues per the group's CFS, including revenue from operations and other income.
    - **Assets:** total assets per the CFS, including both tangible and intangible assets and both current and non-current assets, on a basis consistent with the CFS.
    - **Profits:** profit before tax (PBT) per the CFS, being the pre-tax income figure consistently presented across jurisdictions.

Practitioners should adopt a consistent basis year on year and document the approach followed. The basis adopted for identifying qualifying entities should be applied consistently from year to year and the supporting computations should be retained as part of the Master File working papers.

(g) Business Restructurings, Acquisitions and Divestments

A description of any important business restructuring transactions, acquisitions, and divestments that occurred during the accounting year should be included. This covers transactions that materially alter the group's structure, value chain, or allocation of functions, assets, and risks among group entities. Where a restructuring has occurred, practitioners should ensure that the disclosure is consistent with the TP Study Report, Form No. 3CEB, valuation reports (where applicable), and any contemporaneous restructuring documentation maintained by the group.

Documentation Checklist - Business Description, Value Drivers and Supply Chain
• Written description of the nature of business of the international group across all material lines of business • Description of the important drivers of profit for the group • Supply chain description for the five largest products/services by consolidated revenue • Supply chain description for any other product/service exceeding 5% of consolidated group revenue • List and brief description of important intra-group service arrangements (excluding R&D services) • Description of capabilities of the main service providers within the group. • Description of TP policies for intra-group service cost allocation and pricing. • List of major geographical markets for the group's products and services • FAR analysis for each constituent entity contributing at least 10% of group revenues, assets, or profits • Identification of which entities qualify under the 10% threshold (with supporting computation) • Description of business restructurings, acquisitions, and divestments during the accounting year

4.4.3 Intangible Assets

Items 4 through 9 of Part B of Form No. 3CEAA address the international group's intangible property. Given that intangibles are among the most significant value drivers in multinational groups and are a primary area of focus during TP assessments, this section warrants careful and comprehensive documentation.

(a) Overall Strategy for Development, Ownership and Exploitation of Intangibles

Item 4 requires a description of the overall strategy of the international group for the development, ownership, and exploitation of intangible property. This includes:

- The group's general approach to intangible creation whether intangibles are developed centrally or in a distributed manner across group entities
- The principal research and development (R&D) facilities of the group their locations and the entity responsible for their management
- The group's approach to protecting intangible property (e.g., patents, trademarks, trade secrets, copyright registrations)
- How intangibles are exploited within the group whether through centralised licensing, cost contribution arrangements (CCAs), or other structures.

The description need not be a legal analysis. It should provide a functional overview that enables the tax authorities to understand how intangible value is created and how it flows through the group's structure. The description should broadly align with the group's global TP policy, annual report (where applicable), and other group documentation describing the ownership and exploitation of intangible assets.

(b) Identifying 'Important' Intangibles - Practical Guidance

Items 5, 6, and 7 require lists of entities engaged in the development and management of intangibles, lists of important intangible property owned by the group, and descriptions of important inter-company agreements related to intangibles. The term 'important' is not defined in the rules. The following practical guidance is offered:

An intangible asset or agreement should generally be treated as 'important' for the purposes of Master File disclosure if one or more of the following conditions are satisfied:

- The intangible generates or is capable of generating significant revenue or cost savings for the group, either through direct exploitation or through licensing.

- The intangible is the subject of an intra-group arrangement such as a licence, cost contribution arrangement, or royalty agreement under which payments are made between group entities.
- The intangible is the subject of a transfer between group entities during the relevant accounting year.
- The intangible forms part of the basis of a TP claim or adjustment in any jurisdiction.
- The intangible is legally protected (e.g., registered patents, trademarks, registered copyrights) and is material to the group's business.

The following categories of intangibles commonly arise in practice and should be evaluated against the above criteria:

Category of Intangible	Typical Indicators of Importance
Patents and technical know-how	Used in manufacturing or service delivery; subject to royalty payments between group entities
Trademarks, brands and trade names	Material to the group's revenue; subject to franchise or licensing arrangements
Customer lists and relationships	Transferred or licensed between group entities; contribute to sales performance
Software and proprietary IT systems	Developed centrally and deployed group-wide; subject to software licence charges
Regulatory approvals and licences	Required to operate in a regulated industry; transferred or shared within the group
Trade secrets and confidential processes	Embedded in manufacturing or service processes; not independently registered but protective of competitive advantage
Goodwill arising from business combinations	Where separately valued and attributable to identifiable group entities

Intangibles that are commercially insignificant, entirely locally developed and exploited without any intra-group arrangement, and of immaterial value to the group's overall business, may generally be excluded from the Master File disclosure. However, practitioners are advised to err on the side of inclusion in cases of doubt, given that omissions are a common ground for challenge during assessments.

(c) List of Entities Engaged in Development and Management of Intangibles

Item 5 requires a list of all entities of the international group engaged in the development of intangible property and in the management of intangible property. For each such entity, the name and address must be provided. The following distinction is relevant:

- **Development:** Entities that perform R&D activities, product design, software development, or any other activity that results in the creation or enhancement of intangible property
- **Management:** Entities that hold legal title to intangibles and are responsible for strategic decisions regarding their protection, licensing, and exploitation even where the actual development work is performed by other group entities.

In several group structures, the legal owner of an intangible (the entity that holds the patent or trademark registration) is different from the entity that performs the day-to-day R&D or development functions. Both categories of entities must be listed.

(d) List of Important Intangible Property and Legal Ownership

Item 6 requires a list of all important intangible property (or groups of intangible property) owned by the international group, along with the names and addresses of the group entities that legally own such property. Key points:

- Legal ownership, not economic ownership, determines the entity to be listed. Where an entity holds the registered title to a patent or trademark, it is the legal owner for this purpose, irrespective of the TP treatment of economic returns.
- Intangibles may be listed individually or grouped by category (e.g., 'Patents relating to Product Line X', 'Group trademarks') where individual listing would be impractical due to the large number of items.
- Where the legal ownership of an important intangible changed during the accounting year, the position at year-end should be reflected, with a note on the transfer (which would also be covered under Item 9).

(e) Important Inter-Company Agreements Related to Intangibles

Item 7 requires a list and brief description of important agreements among members of the international group related to intangible property. This includes:

- **Cost contribution arrangements (CCAs):** Agreements under which group entities share the costs and risks of developing intangibles, and in return share in the ownership or benefits of the resulting intangibles
- **Principal research service agreements:** Agreements under which one group entity funds intangible development by another entity on its behalf, typically with the funding entity bearing the financial risk of R&D
- **Licence agreements:** Agreements under which a group entity that legally owns an intangible licenses the right to use it to other group entities, usually in return for a royalty payment.

For each agreement, the description should cover the parties involved, the nature of the arrangement, and, in general terms, the basis of the pricing or cost-sharing mechanism.

(f) TP Policies for R&D and Intangibles

Item 8 requires a description of the TP policies of the international group related to research and development and intangible property. This should describe how the group prices intra-group transactions involving intangibles for example, the method used to determine royalty rates, how CCA contributions are computed, and how the return to development entities versus exploitation entities is determined. The description should be consistent with the arm's length policies adopted by the group and disclosed in Local Files.

(g) Important Transfers of Interest in Intangibles

Item 9 requires a description of important transfers of interest in intangibles between group entities during the accounting year. As noted in Section 4.1.2, this is an India-specific requirement that goes beyond the OECD template. The disclosure must include:

- A description of the intangible transferred
- Names and addresses of the selling entity and the buying entity
- The compensation paid for the transfer

Any transfer of a legally protected intangible, or any transfer where the consideration exceeds a material threshold for the group, should be included.

Documentation Checklist - Intangible Assets
• Description of the group's overall strategy for development, ownership, and exploitation of intangible property • Location of principal R&D facilities and the entity responsible for their management • List of all constituent entities engaged in the development of intangible property (with addresses) • List of all constituent entities engaged in the management of intangible property (with addresses) • List of all important intangible property or groups of intangible property owned by the group • Legal owner (name and address) for each item of important intangible property • List and brief description of all important inter-company agreements related to intangibles (CCAs, principal research service agreements, licence agreements) • Description of the group's TP policies for R&D and intangible property • Description of important transfers of interest in intangibles during the accounting year, including names of selling and buying entities and compensation paid. • Evaluation of whether each intangible meets the 'importance' threshold using the criteria set out in Section 4.4.2 • Confirmation that legal ownership (not economic ownership) is used for the entity identification in Items 5 and 6

4.4.4 Financial Activities

Items 10, 11, and 12 of Part B of Form No. 3CEAA address the financial activities of the international group, with particular focus on the group's financing arrangements, treasury functions, and inter-company financing policies.

(a) Financing Arrangements - Top Ten Unrelated Lenders

Item 10 requires a detailed description of the financing arrangements of the international group, including the names and addresses of the top ten unrelated lenders to the group. As noted in Section 4.1.2, the specific requirement to identify the top ten external lenders by name and address is an India-specific requirement that is not part of the standard OECD Master File template.

The description of financing arrangements should address:

- The overall quantum and composition of the group's external debt
- The principal types of debt instruments used (e.g., term loans, revolving credit facilities, bonds, debentures, commercial paper)
- The general terms of major financing arrangements (tenor, currency, interest rate basis fixed or floating)
- The group's credit rating, if applicable
- The ten largest unrelated (third-party) lenders to the group, by outstanding principal amount with their names and addresses.

(b) Identifying the Top Ten Unrelated Lenders - Practical Guidance

In practice, identifying the top ten unrelated lenders may not be straightforward, particularly in groups with complex treasury structures involving cash pools, back-to-back arrangements, or multiple debt issuances. The following guidance is offered:

Step 1 - Identify all external (unrelated) lenders:

- Compile a list of all entities from whom the international group (at the consolidated level) has borrowed funds from unrelated parties. This includes banks, financial institutions, bondholders (for publicly issued debt), multilateral agencies, export credit agencies, and other third-party lenders.
- Exclude intra-group lenders (i.e., constituent entities of the international group) from this list.
- For publicly issued bonds or notes where individual bondholders are not identifiable, the relevant investment bank or trustee acting on behalf of bondholders may be listed.

Step 2 - Rank by outstanding principal:

- Rank all unrelated lenders by the outstanding principal amount of the debt owed to them as at the end of the accounting year.
- Select the top ten by outstanding principal. Where two lenders have an equal outstanding balance, either may be included; this should be noted.

Step 3 - Cash pools and back-to-back arrangements:

- Where the group operates a cash pooling structure, the external bank operating the cash pool (i.e., the unrelated bank with which the pool account is maintained) should be identified as the external lender for the purposes of Item 10, even where the notional pooling is conducted through an internal treasury entity.
- Where an intra-group entity on-lends funds originally borrowed from an external lender (a back-to-back arrangement), the original external lender is the relevant unrelated lender for Item 10 not the intra-group intermediary.

(c) Group Entities Providing Central Financing Functions

Item 11 requires a list of group entities that provide central financing functions, including their addresses of operation and of effective management. Central financing entities typically include:

- Group treasury companies or in-house banks that manage intra-group lending, liquidity management, and hedging on behalf of the group.
- Holding companies that have borrowed externally and on-lent to operating subsidiaries.
- Captive finance companies that provide lease financing or other financial products to group entities or to customers of the group.

For each such entity, both the address of operation (i.e., where the entity is registered or conducts its activities) and the address of effective management (i.e., where the key management and commercial decisions are made) must be provided. These two addresses may differ in some cases, which can be significant from a TP and treaty perspective.

(d) TP Policies for Intra-Group Financing

Item 12 requires a detailed description of the TP policies of the international group related to financing arrangements among group entities. This should cover:

- The methodology used to price intra-group loans (e.g., comparable uncontrolled price method, cost of funds approach, credit rating-based approach)
- The basis on which interest rates on intra-group loans are set, including any reference to the borrowing entity's credit rating or the group's consolidated credit rating
- Policies relating to thin capitalisation or debt-equity ratios within the group
- Guarantee arrangements where a parent entity or another group entity provides a guarantee for debt incurred by a constituent entity, the policy for guarantee fee pricing
- Policies for cash pool participation rates and the treatment of notional interest in cash pooling arrangements

Documentation Checklist - Financial Activities
• Overall description of the group's external financing arrangements quantum, composition, and key terms • Credit rating of the international group (if applicable) • List of the top ten unrelated (third-party) lenders to the international group, ranked by outstanding principal with names and addresses (India-specific requirement) • For cash pooling structures: identification of the external bank operating the pool as the unrelated lender • For back-to-back arrangements: identification of the original external lender (not the intra-group intermediary) • List of group entities providing central financing functions, with address of operation and address of effective management for each • Description of TP policies for intra-group loans, including pricing methodology and reference rate • Description of thin capitalisation / debt-equity policies of the group

- Description of guarantee fee pricing policies, where applicable
- Description of cash pool participation rate policies and treatment of notional interest, where applicable

4.4.5 Financial and Tax Position

Items 13 and 14 of Part B of Form No. 3CEAA address the financial and tax position of the international group. These items require the constituent entity to attach the group's consolidated financial statements and to disclose existing advance pricing agreements and other rulings relating to allocation of income among jurisdictions.

(a) Consolidated Financial Statements of the International Group

Item 13 requires a copy of the annual consolidated financial statements of the international group for the relevant accounting year. Key points:

- The consolidated financial statements required are those of the international group at the highest consolidating entity level i.e., the Ultimate Parent Entity's consolidated financials.
- The financial statements may be prepared under any generally accepted accounting standard (e.g., IFRS, US GAAP, Indian GAAP), as Rule 10DA does not prescribe a particular accounting framework.
- As the objective of the disclosure is to provide a comprehensive financial overview of the international group, taxpayers should generally furnish the complete consolidated financial statements, including the primary financial statements and accompanying notes, rather than relying solely on abridged extracts or summaries.
- Where the accounting year of the international group differs from the Indian financial year (April to March), the financial statements for the group's own accounting year should be attached, clearly noting the relevant period.

(b) Advance Pricing Agreements and Other Tax Rulings

Item 14 requires a list and brief description of existing unilateral advance pricing agreements (APAs) and other tax rulings relating to TP matters or the allocation of income among jurisdictions of the international group. This includes:

- Unilateral APAs entered into between any constituent entity of the international group and any tax authority not limited to Indian APAs
- Advance rulings, private letter rulings, or similar administrative determinations by any tax authority that have the effect of establishing a pricing arrangement for intra-group transactions
- The requirement is to list and briefly describe such arrangements not to disclose the full text of the APA or ruling.

(c) Practical Guidance on Disclosure of APA Terms

A frequently raised concern in practice is the extent to which APA terms may be disclosed in the Master File without breaching confidentiality obligations particularly where the APA was entered into with a tax authority other than the Indian tax authority. The following guidance is offered:

- Most APA regimes (including the Indian APA programme under Sections 92CC and 92CD) contain a confidentiality clause restricting the disclosure of APA terms by the taxpayer. Disclosure of the full text of an APA or its pricing methodology in the Master File may breach such obligations.
- However, the requirement under Item 14 is for a 'list and brief description' not a full disclosure. A brief description that identifies: (a) the jurisdiction of the tax authority with which the APA was entered into, (b) the nature of the intra-group transaction covered, (c) the period of coverage, and (d) in general terms, the category of TP method applied would typically satisfy the statutory requirement without breaching confidentiality obligations.
- Specific pricing parameters, agreed margins, royalty rates, or other commercially sensitive terms should not be disclosed in the Master File. A note may be included stating that detailed terms are subject to confidentiality obligations under the relevant APA programme.
- Where the APA involves a non-Indian jurisdiction and the taxpayer has legal concerns about cross-border disclosure, it is advisable to seek specific legal advice from counsel in the relevant jurisdiction before completing this item

Documentation Checklist - Financial and Tax Position
• Full annual consolidated financial statements of the international group for the relevant accounting year (not abridged or summarised) • Confirmation that financial statements are at the Ultimate Parent Entity level • English translation of consolidated financial statements, if prepared in another language • Clear notation of the accounting year / period covered by the financial statements • List of all existing unilateral Advance Pricing Agreements (APAs) entered into by any constituent entity of the group with any tax authority. • List of other tax rulings (advance rulings, private letter rulings, administrative determinations) affecting income allocation among group entities • Brief description for each APA / ruling: jurisdiction, nature of transaction covered, period of coverage, and general category of TP method applied • Review of confidentiality obligations under the relevant APA programmes before completing Item 14 • Legal advice obtained (where required) for cross-border APA disclosure

4.5 Documentation Standards, Retention and Best Practices

4.5.1 Language

- Although Rule 10DA and Form No. 3CEAA do not prescribe a specific language, documents furnished to the Indian tax authorities should generally be in English or accompanied by an English translation.
- Where supporting documents (such as consolidated financial statements or group documents) are prepared in a foreign language, an English translation should be maintained and be readily available during assessment proceedings.
- Form No. 3CEAA is required to be filed in English.

4.5.2 Document Version Control and File Organisation

- Maintain the Master File together with all supporting documents in an organised electronic or physical repository, indexed to the relevant disclosure items in Part B of Form No. 3CEAA.
- Maintain version control where revisions are made, particularly where the group Master File is supplemented with India-specific disclosures.
- Adopt a consistent filing convention and retain supporting working papers used in preparing the Master File.

4.5.3 Assessment Readiness

- The Master File and supporting documentation should be capable of being produced within the time prescribed under Section 92D(3).
- Where information is obtained from the overseas parent or other group entities, taxpayers should retain evidence of requests made and information received.
- Before filing, practitioners should verify that the Master File is complete and consistent with Form No. 3CEB, the TP Study Report (Local File), the Master File filed in other jurisdictions (where available), and other contemporaneous group documentation.
- Where any information is unavailable at the time of filing, taxpayers should contemporaneously document the reasons and the efforts made to obtain such information.

4.6 Practical Risk Areas and Compliance Flags

This section identifies the practical risk areas most commonly encountered in Master File compliance. These are areas where non-compliance or deficient compliance is frequently identified either at the time of filing or during assessment proceedings.

4.6.1 Threshold Computation Errors

- **Using the wrong accounting year for consolidated revenue:** The INR 500 Crore consolidated revenue threshold must be evaluated with reference to the international group's accounting year which may differ from the Indian financial year (April to March). Using the Indian constituent entity's financial year figures instead of the group's CFS is a common and consequential error.

- **Omitting intangible transactions from threshold evaluation:** The separate threshold for intangible transactions under Rule 10DA(1)(i)(ii) of INR 10 crore is sometimes overlooked, particularly where aggregate international transactions are below INR 50 crore but intangible transactions alone exceed INR 10 crore. Failure to furnish the Master File on this basis may attract penalty under Section 271AA(2).
- **Incorrect transaction value basis:** The threshold under Rule 10DA(1)(b) is applied with reference to the value of international transactions as per the books of account, not the arm's length price. Practitioners should ensure that the transaction values used for threshold determination are derived from the underlying books and records and are applied consistently for purposes of assessing Master File applicability.

4.6.2 Incomplete or Incorrect Part B Disclosures

- **Omission of India-specific items:** As set out in Section 4.4 of this Handbook, some items in Part B of Form No. 3CEAA are specific to the Indian framework and are not part of the standard OECD Master File template. Where the Indian constituent entity relies on a group Master File prepared by the overseas parent, these items are frequently absent and must be specifically obtained and added before filing. Filing a Form No. 3CEAA that is materially incomplete in respect of these items may attract the Section 271AA(1) penalty for incorrect or incomplete information.
- **Ownership chart not updated for the current year:** Reuse of a prior-year ownership chart without verification of changes in group structure is a frequent practical failure. Mid-year acquisitions, divestments, and restructurings that are not reflected render the Master File factually incorrect.
- **Consolidated financial statements for wrong period or entity:** Attaching the consolidated financial statements of the Indian constituent entity (instead of the UPE's group CFS) or attaching group financials for an accounting year that does not correspond to the relevant accounting year, is a material filing error.

- **Incomplete list of constituent entities:** Omission of intermediate holding entities or of entities excluded from the CFS solely on grounds of materiality or size is a common area of challenge during assessment.
- **APA and ruling disclosures limited to Indian entities only:** Item 14 requires disclosure of APAs and tax rulings of the international group not merely those relating to Indian constituent entities. Restricting disclosure to Indian APAs while omitting foreign APAs constitutes an incomplete filing.

4.6.3 Entity-Level vs. Group-Level Confusion

- The Master File is a group-level document. A filing that describes only the Indian constituent entity's business, functions, and financials rather than the international group as a whole fundamentally misunderstands the purpose of the Master File and does not satisfy the requirements of Part B of Form No. 3CEAA.
- The consolidated financial statements required under Item 13 are those of the international group at the UPE level, not the standalone or consolidated financials of the Indian constituent entity. Filing the wrong financial statements is a material error and may attract the Section 271AA (1) penalty for incorrect information.

4.6.4 Designation and Form No. 3CEAB Risks

- **Late filing of Form No. 3CEAB:** Form No. 3CEAB must be filed at least thirty (30) days before the due date for filing Form No. 3CEAA. Late filing of Form No. 3CEAB defeats the designation each Indian constituent entity is then independently obligated to file Form No. 3CEAA, and the fixed INR 5,00,000 penalty under Section 271AA(2) may apply to each such entity separately.
- **Non-resident designated entity without PAN:** Where a non-resident constituent entity has been designated to file Form No. 3CEAA (permissible post-Notification No. 31/2021 dated 5 April 2021), the designated entity must hold a valid Permanent Account Number. The absence of a PAN prevents electronic filing on the income-tax portal and results in non-compliance.
- **Incorrect assumption that designation covers Part A-only filers:** The designation mechanism under Rule 10DA(4) applies only where

multiple entities are required to file Part B. Constituent entities that are required to file only Part A must do so independently the designation does not extend to Part A-only filers.

4.6.5 APA Confidentiality Risks

- **Over-disclosure of APA terms:** Disclosing specific margin parameters, royalty rates, or other commercially sensitive terms from an APA in the Master File may breach the confidentiality provisions under the relevant APA programme (Indian or foreign). As discussed in Section 4.4.5(c) of this Handbook, disclosure under Item 14 should be restricted to: the jurisdiction of the tax authority, the nature of the transaction covered, the period of coverage, and the general category of TP method applied.
- **Under-disclosure of foreign APAs:** Omitting reference to APAs entered into by foreign constituent entities with their local tax authorities on the incorrect assumption that only Indian APAs are required to be disclosed constitutes a non-compliance under Item 14 and may attract the Section 271AA(1) penalty for incomplete or incorrect information.

4.6.6 Documentation and Retention Risks

- **Supporting documents not maintained:** Filing Form No. 3CEAA without maintaining the underlying supporting documents inter-company agreements, ownership charts, group financial statements, TP policy documents does not constitute full compliance with Section 92D(1). The form is the reporting mechanism; the obligation is to maintain the underlying information and documents contemporaneously.
- **Documents not accessible in English:** Where supporting documents are in a foreign language and no English translation has been maintained, production on requisition under Section 92D(3) within the thirty-day window may be rendered impractical, creating inadvertent Section 271G exposure.

Chapter 5
Country-by-Country Reporting

5.1 Introduction

The increasing globalization and digitalization of business have enabled MNE groups to operate across multiple jurisdictions through complex legal, operational, and supply chain structures. While these developments have facilitated international trade and investment, they have also increased the challenges faced by tax administrations in obtaining a consolidated view of an MNE group's global operations and tax profile.

To address these concerns, the OECD and G20 countries launched the BEPS Project in 2013. As part of the BEPS package, Action 13 introduced a standardized three-tier TP documentation framework comprising the Master File, Local File, and Country-by-Country Report ("CbCR"). Being one of the BEPS minimum standards, Action 13 seeks to enhance tax transparency and provide tax administrations with greater visibility over the global operations of MNE groups.

The Country-by-Country Report is a high-level reporting framework that requires large MNE groups to disclose jurisdiction-wise information on revenues, profits, taxes, employees, stated capital, accumulated earnings, tangible assets, and the nature of business activities. Unlike the Master File and Local File, which primarily support the arm's length analysis of controlled transactions, the CbCR is intended to facilitate TP and other BEPS-related risk assessments by enabling tax administrations to identify potential areas warranting further enquiry.

It is important to note that the CbCR is not intended to determine whether transfer prices are arm's length. Rather, it serves as a high-level risk assessment tool and should not, by itself, form the basis for TP adjustments.

Need for Country-by-Country Reporting

Prior to CbCR	After CbCR
Tax authorities had visibility primarily over local entities and transactions.	Tax authorities obtain a jurisdiction-wise view of the MNE group's global operations.
Limited ability to assess the alignment of profits with economic activities across jurisdictions.	Enhanced visibility over revenues, profits, taxes, employees, and assets by jurisdiction.
Risk assessment was largely based on local information.	Risk assessment is supported by standardized global information reported through the CbCR.

Accordingly, the CbCR enables tax administrations to adopt a more informed and risk-based approach in selecting cases for further review while reducing information asymmetry regarding the global allocation of income, taxes and economic activities within an MNE group.

5.2 Objectives and Purpose of CbCR

As stated in the OECD's TP Documentation and Country-by-Country Reporting – Action 13 Final Report (2015), the primary purpose of CbCR is to provide tax administrations with information regarding the global allocation of income, taxes paid, and economic activities of MNE groups to facilitate effective risk assessment.

The key objectives of CbCR include:

- Enhance transparency in international taxation;
- Facilitate high-level TP risk assessment;
- Assisting tax administrations in identifying potential profit shifting risks;
- Supporting the efficient allocation of audit and compliance resources; and
- Facilitating exchange of information between tax administrations.

It is important to note that CbCR is intended to function as a high-level risk assessment tool and should therefore be interpreted together with the Master File, Local File, financial statements, and other relevant information available to tax administrations.

5.3 Overview of Indian CbCR Regulatory Framework

India was among the early adopters of the OECD/G20 BEPS Action 13 minimum standard and implemented the CbCR framework through the Finance Act, 2016. The Indian CbCR regime is principally governed by Section 286 of the Income-tax Act, 1961 ("ITA, 1961") and Rule 10DB of the Income-tax Rules, 1962 ("IT Rules, 1962"), which together prescribe the applicability thresholds, reporting obligations, notification requirements, filing timelines, and prescribed forms for CbCR compliance.

Compliance Requirement	Relevant Provision	Form	Timeline
Notification of reporting entity details	Section 286(1) of ITA, 1961 and Rule 10DB(2) of IT Rules, 1962	Form No. 3CEAC	At least 2 months before the due date for furnishing the CbCR
Furnishing of the CbCR	Section 286(2) read with Rule 10DB(3)	Form No. 3CEAD	Within 12 months from the end of the reporting accounting year
Intimation of designated constituent entity ("CE")	Proviso to Section 286(4) read with Rule 10DB(5)	Form No. 3CEAE	There is no specific due date prescribed under the ITA or IT Rules
Local filing of CbCR by CE	Section 286(4) read with Rule 10DB(4)	Form No. 3CEAD	Within 12 months from the end of the reporting accounting year
Local filing in case of systemic failure	Proviso to Rule 10DB(4)	Form No. 3CEAD	Within 6 months from the end of the month in which systemic failure is intimated

Key Compliance Requirements under the Indian CbCR Framework

Notification Requirements – Form No. 3CEAC

Form No. 3CEAC is required to be furnished only by a CE resident in India where the parent entity of the international group is not resident in India. The notification is used to:

- Communicate whether the Indian CE itself is the Alternate Reporting Entity of the international group or
- Furnish details of the parent entity or alternate reporting entity together with the jurisdiction in which such entity is resident.

Country-by-Country Reporting Obligation – Form No. 3CEAD

The primary reporting obligation is contained in Section 286(2) of the ITA, 1961, which requires a parent entity or alternate reporting entity resident in India to furnish a CbCR for every reporting accounting year. Rule 10DB(3) prescribes Form No. 3CEAD for this purpose.

As specified under Section 286(3), the report contains jurisdiction-wise information including:

- Revenue from related and unrelated parties;
- Profit or loss before income tax;
- Income taxes paid and accrued;
- Stated capital;
- Accumulated earnings;
- Number of employees;
- Tangible assets other than cash and cash equivalents;
- Constituent entities; and
- Principal business activities.

Intimation by designated CE - Form No. 3CEAE

Section 286(4) of ITA,1961 provides for local filing obligations in specified circumstances, including cases where:

- The parent entity is not obligated to file a CbCR in its jurisdiction of tax residence;

- India does not have an effective arrangement for exchange of the report; or
- There has been a systemic failure in the jurisdiction of the parent entity and such failure has been intimated to the CE.

For the purpose of determining whether an effective exchange arrangement exists, the constituent entity should verify whether India has an activated exchange relationship with the jurisdiction of the Parent Entity or, where applicable, the Alternate Reporting Entity, for the automatic exchange of Country-by-Country Reports. This may be verified by referring to the OECD's published list of activated exchange relationships under the Country-by-Country Multilateral Competent Authority Agreement (CbC MCAA) or any applicable bilateral Competent Authority Agreement, together with any notifications or guidance issued by the CBDT regarding exchange relationships or systemic failures. Where no activated exchange relationship exists between India and the relevant jurisdiction, the Indian constituent entity should evaluate whether the local filing requirements under Section 286(4) of the Income-tax Act, 1961 are triggered.

Where multiple CEs are resident in India, the international group may designate one CE to furnish the CbCR on behalf of all Indian CEs. Such designation is required to be intimated through Form No. 3CEAE.

It is pertinent to note that Form No. 3CEAE is only an intimation of the designated filing entity and does not constitute the CbCR itself. The actual CbCR continues to be furnished in Form No. 3CEAD. The due date for filing Form No. 3CEAE is not prescribed under ITA or IT Rules and hence, the applicable due date becomes unclear and would need to be evaluated based on the specific facts and circumstances.

As a general rule, a CE required to undertake local filing is required to furnish the CbCR within twelve months from the end of the reporting accounting year. However, where a systemic failure has been intimated to the CE, the proviso to Rule 10DB(4) requires the report to be furnished within six months from the end of the month in which such systemic failure is intimated.

Applicability Threshold

The Indian CbCR requirements (Form No. 3CEAC, Form No. 3CEAD and Form No. 3CEAE) apply only where the total consolidated group revenue of the international group exceeds INR 6,400 crore in the accounting year preceding the reporting accounting year, as prescribed under Section 286(7) of the ITA, 1961 read with Rule 10DB(6) of the IT Rules, 1962.

Where consolidated group revenue is denominated in a foreign currency, Rule 10DB(7) requires conversion into Indian Rupees using the SBI telegraphic transfer buying rate prevailing on the last day of the accounting year preceding the reporting accounting year.

Accordingly, the Indian CbCR framework establishes the conditions for applicability, notification requirements, reporting obligations, local filing provisions, and timelines for furnishing the CbCR. Having understood the regulatory framework governing CbCR in India, the next step is to examine the reporting template through which the required information is communicated to tax administrations.

5.4 Overview of CbCR Reporting Requirements and Template

As envisaged under Annex III to Chapter V of the OECD's TP Guidelines and Country-by-Country Reporting – Action 13 Final Report (2015), CbCR is based on a standardized reporting template designed to ensure consistency in the collection and reporting of information by MNE groups across jurisdictions. The template has been adopted in India through Form No. 3CEAD prescribed under Rule 10DB(3) of the IT Rules, 1962 and serves as the basis for reporting information under Section 286 of ITA,1961.

The CbCR is structured into three tables, each intended to capture a distinct aspect of an international group's global operations:

Table	Purpose	Key Information Reported
Part A – Overview of Allocation of Income, Taxes and Business Activities by Tax Jurisdiction	Provides a jurisdiction-wise financial and economic profile of the international group.	Revenue, profit (loss) before income tax, income taxes paid and accrued, stated capital, accumulated earnings, employees, and tangible assets.
Part B – List of CEs and Main	Identifies CEs operating in each jurisdiction and	CEs, tax jurisdiction (jurisdiction of

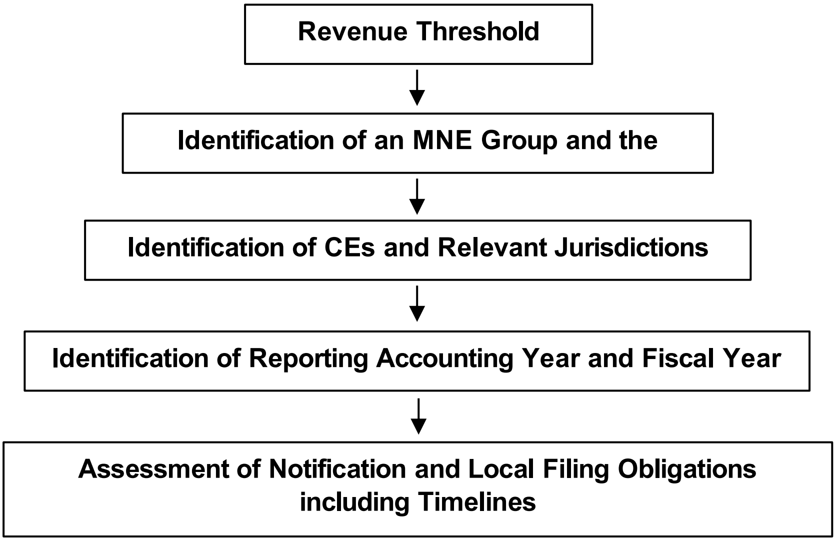
Business Activities	the activities performed by them.	incorporation if different from tax jurisdiction), and principal business activities.
Part C – Additional Information	Provides supplementary explanations necessary for understanding the information reported in Tables 1 and 2.	Data sources, reporting methodologies, assumptions, restructurings, and other explanatory information.

The information reported in these tables enables tax administrations to obtain a high-level overview of the geographic distribution of an MNE group's activities, income, taxes, and economic presence, and serves as an important input for TP and BEPS risk assessment.

Accordingly, effective preparation of the CbCR requires identification of the reporting entity, CEs, relevant jurisdictions, reporting periods, and underlying data sources used for compiling the information reported across the three tables. These considerations are discussed in the ensuing section dealing with MNE Group readiness and applicability assessment.

5.5 MNE Group Readiness and Applicability Assessment

Before initiating the CbCR compliance process, MNE groups should undertake a structured readiness assessment to determine the applicability of the reporting requirements and establish an appropriate compliance framework. While the specific facts and circumstances of each group may vary, the assessment generally involves the following key considerations.



5.6 Revenue Threshold Verification

The first step is to determine whether the international group exceeds the INR 6,400 crore consolidated group revenue threshold under Section 286(7) of the ITA, 1961 read with Rule 10DB(6) of the IT Rules, 1962 and therefore falls within the scope of the Indian CbCR provisions.

The assessment should generally consider:

- Consolidated group revenue for the accounting year preceding the reporting accounting year;
- Treatment of extraordinary income and investment-related gains;
- Revenue recognition practices adopted under the applicable accounting framework;
- Revenue presentation by financial institutions and regulated financial services entities; and
- Consistency of accounting standards used for determining group membership and consolidated revenue.

The ITA or IT Rules do not provide guidance on revenue threshold verification; however, reliance can be placed on OECD's Implementation Guidance on BEPS Action 13 which clarifies that extraordinary income and gains from investment activities may be included in consolidated group revenue where such items are reflected as revenue in the consolidated financial statements.

Similar considerations may arise for financial institutions where revenue is reported on a net basis through measures such as net banking product or net revenue.

Further, where a privately held group prepares consolidated financial statements under accounting standards that differ from those used to determine the existence of, and membership in, the group for CbCR purposes, the group should ensure that the accounting principles applied for determining consolidated group revenue are consistent with the OECD guidance on CbCR applicability and group membership.

Accordingly, verification of the revenue threshold should not be limited to a numerical comparison with the statutory threshold, but should also include a review of the accounting principles, consolidation methodology and revenue recognition policies applied in determining consolidated group revenue.

5.7 Identification of an MNE Group and the Reporting Entity

Once applicability has been established, the group should identify the entity responsible for fulfilling the CbCR obligations.

Definition of MNE Group: As contained in Article 1 of the OECD Model Legislation set out in Annex IV to Chapter V of the OECD's TP Guidelines and Country-by-Country Reporting – Action 13 Final Report (2015), an MNE Group means a group that:

- Includes two or more enterprises that are tax resident in different jurisdictions; or
- Includes an enterprise that is resident for tax purposes in one jurisdiction and is subject to tax with respect to a permanent establishment ("PE") situated in another jurisdiction and is not an Excluded MNE Group.

The Indian statutory equivalent is the term 'international group' and is defined in Section 286(9)(g) of the ITA, 1961 as below:

- two or more enterprises which are resident of different countries or territories or

- an enterprise, being a resident of one country or territory, which carries on any business through a permanent establishment in other countries or territories

The assessment should generally include:

- Identification of the Ultimate Parent Entity ("UPE");
- Identification of the alternate reporting entity, where applicable;
- Determination of the jurisdiction in which the CbCR will be filed;
- Evaluation of alternate reporting arrangements, if any; and
- Assessment of exchange-of-information arrangements between relevant jurisdictions.

Timely identification of the reporting entity is critical, as it forms the foundation for subsequent notification, filing, and local filing assessments.

5.8 Identification of CEs and Relevant Jurisdictions

Following identification of the reporting entity, the group should determine the CEs that fall within the scope of the CbCR and the tax jurisdictions in which such entities are resident or operate.

Article 1 of the OECD Model Legislation contained in Annex IV to Chapter V of the OECD's TP Guidelines and Country-by-Country Reporting – Action 13 Final Report (2015) provides that a CE generally includes:

- Any business unit included, or required to be included, in the consolidated financial statements of the MNE group;
- Any business unit excluded solely on grounds of size or materiality; and
- PE for which separate financial information is maintained.

The identification exercise should generally cover:

- Legal entities within the group;
- PE;
- Transparent entities and similar arrangements;
- Joint venture or other special structures, where relevant;

- Jurisdiction of tax residence; and
- Jurisdiction of incorporation, where different.

Particular attention should be paid to:

- Mergers and demergers;
- Acquisitions and disposals;
- Changes in tax residence;
- New incorporations or liquidations; and
- Other organizational restructurings occurring during the reporting period.

Given that the information reported in Tables 1 and 2 of the CbCR is compiled on a jurisdiction-by-jurisdiction basis, accurate mapping of CEs to the relevant tax jurisdictions is essential for ensuring completeness and consistency of reporting.

5.9 Identification of Reporting Accounting Year and Fiscal Year Alignment of CEs

The reporting accounting year establishes the reporting period for the CbCR and should therefore be identified at an early stage of the compliance process.

Since CEs may operate across multiple jurisdictions with different fiscal year ends, statutory reporting periods, or accounting cycles, the group should assess whether any adjustments or alignments are required to ensure consistency of information reported across the CbCR.

Annex IV to Chapter V of the OECD TP Guidelines and Country-by-Country Reporting – Action 13 Final Report (2015) provide guidance on the reporting period to be used for CEs in a CbC Report. The guidance allows the Reporting MNE to adopt either of the following approaches, provided the approach is applied consistently:

(i) information for the fiscal year of the relevant CEs ending on the same date as the fiscal year of the Reporting MNE, or ending within the 12-month period preceding such date, or

(ii) information for all the relevant CEs aligned to the Reporting MNE's fiscal year.

Areas requiring review typically include:

- Different fiscal year-end conventions across jurisdictions;
- Availability of management accounts or interim financial information;
- Acquisitions or disposals during the reporting period;
- Mergers, demergers, or restructurings affecting the reporting period; and
- Consistency of reporting periods adopted across CEs.

Establishing a consistent reporting period across the group is critical for ensuring comparability and reliability of the information reported in the CbCR. Where different reporting periods or alignment methodologies have been adopted, the basis followed should be appropriately explained in Table 3 to facilitate a proper understanding of the information presented in the CbCR.

5.10 Assessment of Notification and Local Filing Obligations including Timelines

Once the reporting entity and reporting perimeter have been established, the group should assess the notification and local filing requirements applicable in the jurisdictions in which CEs are resident.

The assessment should generally include:

- Identification of notification requirements applicable to CEs;
- Determination of the entity responsible for furnishing the CbCR;
- Verification of exchange-of-information arrangements between relevant jurisdictions;
- Assessment of local filing triggers under the applicable legislation; and
- Evaluation of systemic failure notifications and their impact on filing obligations.

Particular attention should be paid to situations where:

- The parent entity is not obligated to furnish a CbCR in its jurisdiction of tax residence;
- An effective exchange-of-information arrangement is not available;

- A systemic failure has been notified by the relevant tax administration; or
- A designated filing arrangement is proposed for local filing purposes.

Timely identification of these requirements is essential to avoid compliance failures and ensure adherence to applicable filing timelines.

Completion of the above assessment enables the reporting group to determine the applicability of the CbCR requirements, identify the appropriate reporting entity, assess notification and local filing obligations, and establish the reporting perimeter for purposes of preparing the report.

5.11 Data Collection and Validation Framework for CbCR Compliance

5.11.1 Identification of Source Data

MNE Group should establish a structured process for data collection, validation, and reconciliation. The key objectives of the framework are to:

- Ensure complete coverage of all CEs;
- Maintain consistency in reporting across jurisdictions;
- Validate the accuracy of financial and non-financial information;
- Minimize reporting errors and inconsistencies; and
- Maintain supporting documentation for future audits or enquiries.

In order to achieve the above objective, the reporting MNE should identify the source of information for each data field and ensure that a consistent methodology is followed across reporting periods unless there is a justified reason for change. To establish a standardized data collection process across the group, a CbCR data request template may be circulated containing all the data fields to all CEs requesting the relevant financial and operational information.

The reference list of source information to be considered by MNE Group is listed below:

Information Required	Source of Information
Revenue, Profit Before Tax, Stated Capital, Accumulated Earnings	Reporting MNE may choose the source data from its consolidation reporting packages, from separate entity financial statements, regulatory financial statements, or internal management accounts.
Income Tax Paid	Tax Ledgers, Tax Returns, Tax Payment Records
Income Tax Accrued	Amount reported in Source data, Tax Provision Workings
Employee Headcount	Payroll Reports, HR Records
Tangible Assets	Source data, Financial Statements
Business Activities	TP Documentation, Master File
CE Information	Group Organizational Chart, Legal Entity Register

The data collected should be validated by the Reporting MNE to ensure reliability and maintain a record of all adjustments, assumptions, and reconciliations performed during the data validation process.

5.12 Preparation of Part A: Jurisdiction wise Financial and Tax Information

5.12.1 Grouping of CEs with relevant Tax Jurisdictions

Tax Jurisdiction is defined in Annex III to Chapter V of the OECD's TP Guidelines and Country-by-Country Reporting – Action 13 Final Report (2015) which states that the Reporting MNE should report all tax jurisdictions in which the CEs of the MNE Group are tax resident. A separate row should be included for CEs that are not considered tax resident in any jurisdiction.

Where a CE is regarded as tax resident in more than one jurisdiction, the applicable tax treaty tie-breaker rules should be applied to determine its jurisdiction of residence for CbC reporting purposes. In the absence of an applicable tax treaty, the entity should be reported in the jurisdiction where its place of effective management is located.

The following steps may be undertaken to identify all CEs and map them to their respective tax jurisdictions:

- Obtain the latest group organizational chart.
- Obtain a list of entities included in the consolidated financial statements.
- Determine the tax residence of each CE.
- Aggregate the entities based on the relevant tax jurisdiction.

5.12.2 Data points required for Part A

Data Field	Definition as per OECD (*Annex III to Chapter V of the OECD's TP Guidelines and Country-by-Country Reporting – Action 13 Final Report (2015)*)	General Data Collection and Validation Approach
Revenue (Related Party Revenue and Unrelated Party Revenue)	• The term 'Revenues' refers to the aggregate sum of revenue figures of all CEs in the same tax jurisdiction (bifurcated into revenue earned from related parties and independent parties). Revenues should exclude payments received from other CEs that are treated as dividends in the payor's tax jurisdiction. • Revenues should include revenues from sales of inventory and properties, services, royalties, interest,	• Obtain intercompany transaction schedules and ledger accounts; • Bifurcate into revenue earned from related party and independent entities and aggregate the revenue at the jurisdiction level; • Recheck the treatment adopted for dividend from CEs; • Review for any one-off or special transactions impacting the revenues reported and if significant variations are observed, provide necessary explanation; • Validate the transactions with TP

	premiums and any other amounts.	documentation and the source data used; • Maintain a reconciliation for the variations observed in the numbers; • Verify that revenue from PE is allocated to the appropriate jurisdiction and ensure that revenue is not double-counted; • The total revenue field in the CbC template should reflect addition of Related Party Revenue + Unrelated Party Revenue
Profit (Loss) before Income Tax	• Aggregate sum (i.e. not consolidated) of profit (loss) before income tax figures of all CEs resident for tax purposes in the relevant tax jurisdiction. • The profit (loss) before income tax should include all extraordinary income and expense items.	• Review the profitability of each jurisdiction and if significant variations are observed, provide necessary explanation; • Document the business reasons jurisdictions making losses; • Recheck the treatment adopted for dividend from CEs as Guidance on the Implementation of CbC Reporting provides for exclusion of dividend received from CEs that are treated as dividends in the payer's tax jurisdiction.

Income Tax Paid (on Cash Basis)	• Represents total amount of income tax actually paid during the relevant fiscal year by all the CEs resident for tax purposes in the relevant tax jurisdiction. • Taxes paid should include cash taxes paid by the CEs to the residence tax jurisdiction and to all other tax jurisdictions. • Taxes paid should include withholding taxes paid by other entities (associated enterprises and independent enterprises) with respect to payments to the CE.	• Reconcile taxes paid with tax records; • Guidance on the Implementation of CbC Reporting states that taxes paid should include payments relating to both current and prior-year tax liabilities, including reassessments, regardless of whether such payments are made under protest; • Review material differences between tax paid and tax accrued; • Confirm treatment of withholding taxes; • Validate treatment of tax refunds, settlements, and prior-year tax payments; • As per Guidance on the Implementation of CbC Reporting, income tax refunds should generally be reported under 'Income Tax Paid (on Cash Basis)' in the year of receipt. However, where such refunds are treated as revenue under the applicable accounting standards or the source data used for

		completing Part A, an appropriate disclosure should be made in Table 3 • Particular attention should be given to jurisdictions where low taxes are paid despite substantial profitability or vice versa.
Income Tax Accrued (Current Year)	• Sum of the accrued current tax expense recorded on taxable profits or losses for the year of reporting of all the CEs. • The current tax expense should reflect only operations in the current year and should not include deferred taxes or provisions for uncertain tax liabilities.	• The amount should be derived from source information which should include current tax expenses and exclude deferred taxes or provisions for uncertain tax liabilities; The amount should factor irrespective of whether or not the tax has been paid; • The amount should be reconciled with tax provision workings and tax computations; • Maintain reconciliation of income tax expenses recorded in financial statement vis-à-vis amount reported in Part A; • Material differences between tax paid and accrued should be analysed and documented.

Stated Capital	• 'Stated Capital' refers to the sum of the stated capital of all CEs resident for tax purposes in a tax jurisdiction. • With regard to PE, the stated capital should be reported by the legal entity of which it is a permanent establishment unless there is a defined capital requirement in the PE tax jurisdiction for regulatory purposes.	• The amount should be reviewed with source data used to ensure accuracy and share capital register if maintained separately; • Ensure that the stated capital pertaining to PE is clubbed with the main entity of which it is a PE. • Review changes arising from share issuances, capital reductions, mergers, or reorganisations and document the reporting treatment adopted.
Accumulated Earnings	• Sum of the total accumulated earnings of all the CEs resident for tax purposes in the relevant tax jurisdiction as of the end of the year. • With regard to PE, accumulated earnings should be reported by the legal entity of which it is a PE.	• The amount should be reviewed with source data used to ensure accuracy; • Ensure that the accumulated earnings pertaining to PE is clubbed with the main entity of which it is a PE.
Number of Employees	• Represents total number of employees on a full-time equivalent (FTE) basis of all the CEs resident for tax purposes in the relevant tax jurisdiction.	• Review if the methodology adopted (i.e., year-end headcount, average headcount) and the source data has been consistent year-on-year across tax jurisdictions;

	• The number of employees may be reported as of the year end, on the basis of average employment levels for the year, or on any other basis consistently applied across tax jurisdictions and from year to year. • Independent contractors participating in the ordinary operating activities of the CEs may be reported as employees.	• Document treatment of contractors; • Review of year-on-year movements and significant changes in employee numbers should be investigated and documented.
Tangible Assets other than Cash and Cash Equivalents	• Sum of the net book values of tangible assets of all the CEs resident for tax purposes in the relevant tax jurisdiction. • For PE, assets should be reported by reference to the tax jurisdiction in which the PE is situated. • Tangible assets for this purpose do not include cash or cash equivalents, intangibles, or financial assets.	• Reconcile the amounts with the fixed assets register maintained and document the variations observed; • Confirm exclusion of cash & cash equivalents, intangible assets and financial assets; • Review treatment adopted for assets related to PE and document the methodology adopted.

The Guidance on the Implementation of CbC Reporting includes several important interpretative points and practical considerations. Some of the commonly relevant guidelines are summarised below.

- Comprehensive income/earnings, revaluations, and/or unrealized gains reflected in net assets and the equity section of the balance sheet should not be reported as Revenues in Part A.
- Typically, Stated Capital should not be a negative amount and negative amounts should not be used for 'Number of Employees' and 'Tangible Assets other than Cash and Cash Equivalents'.
- Where a CE's accounting profit includes the profits of another CE, such amounts should be excluded from Revenue and Profit (Loss) before Income Tax for CbCR purposes, similar to the treatment of intra-group dividends, to avoid double counting of income within the MNE Group. This does not apply to tax transparent CEs.
- 'Income Tax Paid (on cash basis)' and/or 'Income Tax Accrued (current year)' should not include information on income tax accrued or income tax paid with respect to dividends from CEs that are not included in 'Profit (loss) before Income Tax'.
- The Action 13 report and published guidance do not provide for any shortening of the amounts to be included in Part A.

Additional guidance that may be considered by MNE Group includes

- PE data should be reported in the tax jurisdiction in which the PE is situated. The financial information reported in the residence jurisdiction of the legal entity should exclude amounts attributable to the PE. Further, the nomenclature used for reporting PEs in Part B should be consistent with the OECD Guidance and the Indian regulatory framework. For example, where an MNE Group includes a CE, XYZ Corp, resident in Tax Jurisdiction A with a PE in Tax Jurisdiction B, the PE may be reported in Part B as "XYZ Corp – Tax Jurisdiction A Permanent Establishment".
- Under the Country-by-Country Reporting – Action 13 Final Report (2015) minimum standard, MNE groups are not required to reconcile the revenue, profits and tax reported in a CbCR to its consolidated financial statements.
- With respect to Employee data field, MNE Group can choose their source of employee data as well as the cutoff date. It is important to apply this definition consistently among entities in an MNE group and from year to year.

An important aspect that an MNE Group should undertake is to review whether the reported CbC data may give rise to potential tax risk indicators (e.g., high profitability with low substance, low effective tax rates, persistent losses, high related-party revenues) and consider whether additional explanations should be included in Part C. Please refer section 5.15 of this guide to understand on the various key ratios required to be computed and analysed.

5.13 Preparation of Part B: List of CEs and Main Business Activities

Part B provides information regarding the CEs comprising the MNE group and the nature of activities undertaken by each entity. The Reporting MNE should list all CEs of the MNE Group by legal entity name and tax jurisdiction of residence. PE should be reported with reference to the tax jurisdiction in which they are situated.

If a CE is incorporated or organised in a jurisdiction different from its tax jurisdiction of residence, the Reporting MNE should disclose the jurisdiction of incorporation or organisation.

5.13.1 Alignment of CEs with Group Organizational Structure and Consolidated Financial Statements:

Before preparing Part B, MNE Group should reconcile the list of CEs with:

- Group organizational charts;
- Legal ownership records;
- Consolidated financial statements; and
- Prior year CbCR filings.

The objective is to ensure that:

- No CE is omitted;
- Newly acquired entities are included;
- Liquidated entities are appropriately considered; and
- PE are separately identified.

5.13.2 Identification of Entity-wise Business Activities Including Active and Dormant Entities:

MNE Group should identify the principal business activities undertaken by each CE. The reporting should be supported by:

- Functional analysis documented in the TP documentation;
- Master File disclosures; and
- Internal business descriptions.

Entities should be classified based on their principal activities, such as:

- Research and development;
- Holding or Managing Intellectual Property;
- Purchasing or Procurement;
- Manufacturing or Production;
- Sales, Marketing or Distribution;
- Administrative, Management or Support Services;
- Provision of Services to Unrelated Parties;
- Internal Group Finance;
- Regulated Financial Services;
- Insurance;
- Holding Shares or Other Equity Instruments;
- Dormant;
- Other

Dormant entities should not be excluded merely because they do not undertake significant operations. Their status should be appropriately reflected in the reporting.

In cases where 'Other' is selected as the main business activity of a CE, a brief description of the nature of the activity should be provided.

5.14 Preparation of Part C: Additional Explanations and Clarifications

Part C serves as a supplementary disclosure mechanism allowing the reporting entity to provide context for the information reported in Tables 1 and 2. Accordingly, MNE groups should include concise explanations, where relevant, to facilitate a better understanding of the reported data and reduce the risk of misinterpretation of the quantitative information contained in the CbC Report.

The additional information could include the following:

- Brief description of the sources of data used
- If a change is made to the source of data used from year to year, the reasons for the change and its consequences should be provided.
- Where information relevant to a particular jurisdiction is taken from different sources of data, or where the sources of data used change over time, this must be explained.
- The Guidance on the Implementation of CbC Reporting provides that, where negative accumulated earnings are offset against positive accumulated earnings within the same tax jurisdiction, this should be disclosed in Part C to explain the reported accumulated earnings figure.
- Reason for significant fluctuations on the year-on-year data reported in Part A and Part B
- Basis of reporting period adopted for CEs
- Occurrence of one-time or exceptional transactions
- Reason for any changes in reporting methodology
- Basis adopted for reporting employee data
- If statutory financial statements are used as the basis for reporting, the average exchange rate applied for translation should be stated

Prior to finalising the CbC Report, appropriate review checks should be performed to ensure the completeness, accuracy, and consistency of the information reported. The below stated review checks should be performed before finalizing the CbCR to ensure that:

- Data has been collected from all CEs
- Reporting period of CEs applied consistently across years
- Jurisdictional mapping has been completed and reviewed
- Financial information reported in the CbC Report is consistent with the underlying source data
- Same data source and methodology should be applied consistently across jurisdictions and reporting periods and any changes should be clearly explained in Part C
- Significant variances have been analysed and where relevant, adequately explained in Part C
- Information reported in Part A, Part B, and Part C are internally consistent
- Supporting documentation has been retained to substantiate the information reported in the CbC Report.

5.14.1 Guidance on Specific Transactions or One-off Events of the MNE Group

As part of the year-end CbCR compliance process, MNE Group should identify and review any significant transactions, extraordinary events, or business changes that occurred during the reporting accounting year. Common examples include Business restructurings, Mergers and Acquisitions, Transfer of Intangible Property, Liquidation of Entities, Change in Tax Residence, Extraordinary or One-time Gains and Losses, etc.

The objective of this review is to:

- Identify all significant transactions and business events during the reporting year;
- Evaluate the impact of such transactions on the information reported in Part A and Part B;
- Assess whether unusual fluctuations in financial ratios (financial ratios and risk assessment parameters are discussed in the ensuing section) are attributable to such specific or one-off events;
- Determine whether additional disclosures are required in Part C; and

- Maintain supporting documentation to substantiate the treatment adopted.

The purpose of this review is not only to ensure technical accuracy of the CbCR but also to provide sufficient context so that tax authorities can appropriately interpret the economic activities and tax profile of the MNE group.

5.15 Understanding Key CbCR Risk Indicators

It is important to note that the information contained in a CbC Report may be used for high level TP risk assessment and the assessment of other BEPS-related risks by the tax authorities. Although, OECD Guidance on Country-by-Country Reporting: Handbook on Effective Tax Risk Assessment (2017) states that the results of this assessment should not be taken as conclusive evidence, the tax authorities may seek additional information to evaluate the existence of a material tax risk and determine whether any further compliance actions are required.

The OECD Guidance on Effective Tax Risk Assessment provides an illustrative list of potential tax risk indicators that may be considered by tax authorities while reviewing CbC Reports. For the purposes of this guide, certain key financial ratios that may be calculated by MNE groups are presented below. These ratios can assist MNEs in identifying potential risk areas and performing a preliminary risk assessment prior to the submission of the CbC Report to the relevant tax authority.

The ratios may be calculated jurisdiction-wise and the objective is to identify unusual trends, validate the consistency of CbCR data, and determine whether additional disclosures may be required in Part C.

The results of the financial ratios for a jurisdiction may be compared with those of other jurisdictions within the group; with the group as a whole; with potentially comparable entities outside the group; or with industry averages.

S.No	Ratio / Parameter	Formula	Purpose	Illustrative Review Considerations
1	Unrelated Party Revenue	Unrelated Party Revenue ÷	Measures the extent to which a jurisdiction's	Significant fluctuations from

	to Total Revenue	Total Revenue	revenue is derived from third-party customers.	prior years should be reviewed.
2	Related Party Revenue to Total Revenue	Related Party Revenue ÷ Total Revenue	Measures the dependency of a jurisdiction on intra-group transactions.	Significant fluctuations from prior years should be reviewed.
3	Revenue per Employee	Total Revenue ÷ Number of Employees	Indicates the level of revenue generated by the workforce in a jurisdiction.	Compare with jurisdictions performing similar functions. Significant deviations may warrant further review.
4	Profit Before Tax per Employee	Profit Before Tax ÷ Number of Employees	Assesses the profitability generated relative to the employee base.	Evaluate whether profits reported appear commensurate with the personnel performing value-creating activities in the jurisdiction.
5	Revenue to Tangible Assets	Total Revenue ÷ Tangible Assets	Measures the efficiency with which tangible assets are utilized to generate revenue.	Review whether the ratio is consistent with the nature of the business (e.g., manufacturing vs. service-oriented activities).
6	Profit Before Tax to	Profit Before Tax ÷	Assesses the profitability generated from	Significant profits reported despite limited tangible

	Tangible Assets	Tangible Assets	the tangible asset base.	assets may require further review, particularly where the jurisdiction performs limited operational activities.
7	Return on Equity (Pre-tax)	Profit Before Tax ÷ (Stated Capital + Accumulated Earnings)	Measures the return generated on the equity invested in the jurisdiction.	Review unusually high returns and assess whether they align with the FAR analysis of entities in the jurisdiction.
8	Return on Equity (Post-tax)	(Profit Before Tax – Income Tax Accrued) ÷ (Stated Capital + Accumulated Earnings)	Measures the post-tax return generated on the jurisdiction's equity base.	Compare with prior years and evaluate the impact of tax incentives, losses, or one-time tax adjustments.
9	Profit Before Tax Margin	Profit Before Tax ÷ Total Revenue	Measures the profitability of a jurisdiction relative to its revenue.	Persistent losses, unusually high margins, or significant year-on-year changes should be reviewed and documented.
10	Effective Tax Rate (ETR)	Income Tax Accrued ÷ Profit Before Tax	Measures the relationship between accounting profits and income tax expense.	Compare with the statutory tax rate and understand differences arising from incentives, losses, permanent differences, or exceptional items.

The following examples as provided in the OECD Guidance on Effective Tax Risk Assessment illustrate how tax authorities may interpret certain CbC ratios and indicators while undertaking a high-level risk assessment.

Case 1: A jurisdiction may be flagged for potential risk if the earnings in a jurisdiction appear to be disproportionate to their level of economic activity, particularly if earnings are derived largely from related parties. Such a view may arise where one or more of the following characteristics are present:

- High proportion of related party revenues
- Low substantial activities in proportion to revenues or profit before tax, evidenced by high ratios of
  - total revenues or profit before tax to total employees
  - total revenues or profit before tax to tangible assets
- High return on equity
- Low-cost base, resulting in a high profit-before-tax-to-revenue ratio
- Profitability exceeds that of the group as a whole (i.e., profit before tax / total revenues) > (sum of profit before tax / sum of total revenues)
- Low effective tax rate

Case 2: A potential risk indicator may arise where an MNE group has substantial profits in a particular jurisdiction but accrues little or no income tax for the period, in particular where this is substantially lower than the headline rate of corporate tax in that jurisdiction.

Case 3: Tax authorities may identify potential risk where entities undertaking substantial business activities consistently generate low profits or incur losses. The characteristics include

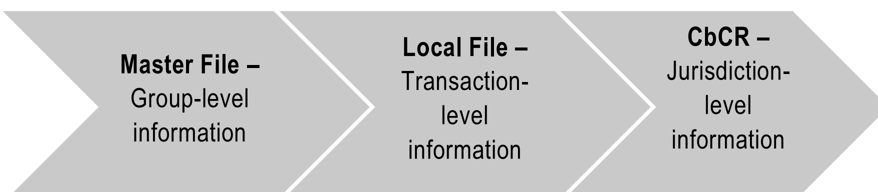
- The jurisdiction includes entities engaged in profit-generating activities
- High proportion of unrelated party revenues
- High-cost base, resulting in low or negative profitability
- The effective tax rate is not low
- This is not the result of start-up losses or recent expansion within the jurisdictions

The presence of one or more of the above indicators does not, in itself, establish a TP risk. However, such indicators may warrant further analysis and, where appropriate, additional explanations to be added in Part C of the CbC Report to provide context to the reported data.

5.16 Interaction with Master File and TP Documentation

The CbCR, the Master File, and the Local File together constitute the three-tiered TP documentation framework introduced under BEPS Action 13. While each document serves a distinct purpose, they are intended to provide tax administrations with a consistent and coherent understanding of the MNE group's global operations, value chain, and TP arrangements.

BEPS Action 13 Documentation Framework



The Master File, Local File, and CbCR provide group-level, transaction-level, and jurisdiction-level perspectives of an MNE group's operations respectively. Together, they enable tax administrations to obtain a comprehensive understanding of the group's business activities, value chain, TP arrangements, and global allocation of income and taxes.

Particulars	CbCR	Master File	Local File
Objective	High-level tax risk assessment	Provides a high-level overview of the MNE group's global business operations, TP policies, and allocation of income & economic activities.	Provides more detailed information relating to specific intercompany transactions.
Coverage	Entire MNE Group	Entire MNE Group	Specific jurisdiction/entity

Level of Information	Jurisdiction-wise aggregated data	Group-level information	Transaction-level information
Key Focus	Alignment of profits and taxes with economic activities across jurisdictions	Understanding the group's value creation and TP policies	Substantiating the arm's length character of intercompany transactions
Primary Use	Risk assessment	Understanding group operations	TP compliance and audit support

Establishing Linkages Across the Three-Tier Documentation Framework

To ensure consistency across the TP documentation framework, MNE groups should establish clear linkages between the information reported in the CbCR, Master File, and Local File. This may be achieved through a structured reconciliation of key data points, business descriptions, and organizational information across the three documents.

CbCR Item	Linkage to Master File	Linkage to Local File
CEs reported in Part B	Legal ownership and organizational structure	Local entity covered in the Local File
Principal business activities	Global business and value chain description	Functional analysis of the local entity
Revenue and profit allocation by jurisdiction	Geographic allocation of income and economic activities	Financial results relating to tested transactions
Employees and tangible assets	Global business footprint and operational presence	Local operational profile and functions performed

Jurisdictional profit outcomes	Value creation, DEMPE functions, and risk allocation	Arm's length remuneration of controlled transactions
Additional explanations in Part C	Reporting assumptions and group-wide methodologies	Transaction-specific explanations where relevant

As emphasized in the OECD's Aligning TP Outcomes with Value Creation – Actions 8–10 Final Reports (2015), TP outcomes should be aligned with the location of economically significant activities, assets, and risks. Consequently, tax administrations increasingly review the information reported in the CbCR alongside the value chain, functional analysis, intangibles, and financing disclosures contained in the Master File and Local File to evaluate whether the reported allocation of profits is consistent with the group's value creation model.

Accordingly, MNE groups should review the information disclosed in the CbCR against the Master File and Local File to ensure consistency of:

- CEs and organizational structures;
- Principal business activities and value chain descriptions;
- Functional, asset, and risk profiles;
- Revenue, profitability, and tax outcomes; and
- Explanatory disclosures and reporting assumptions.

Significant inconsistencies between these documents may increase the likelihood of enquiries from tax administrations and may adversely affect TP risk assessments.

5.17 Filing Process of Form No 3CEAD

Once the information required for the CbCR has been compiled, the reporting entity is required to furnish the report electronically in Form No. 3CEAD in accordance with Section 286 of the ITA, 1961 and Rule 10DB of the IT Rules, 1962. Prior to initiating the filing process, reporting entities should ensure that the underlying information has been reviewed, validated, and approved internally. The following errors recur across CbCR filing cycles and are preventable with structured pre-filing controls. Each arises from a specific process gap in data extraction, source selection, calendar discipline, or review rather than from complexity in the underlying law.

Common Error	Why It Happens	Preventive Control
Deferred tax included in 'income tax accrued'	Finance teams extract total tax expense (current + deferred) from ERP without splitting	Use the current tax line from the P&L note, not the total income tax expense line. Validate against the tax provision workpaper.
Revenue excludes certain CEs in a jurisdiction	Multiple CEs in one jurisdiction aggregated incompletely	Map all CEs to jurisdictions before data collection. Use the Part B entity list as the control for which entities contribute to each jurisdiction line in Part A.
PE data double-counted (in both head office jurisdiction and PE jurisdiction)	Head office includes full P&L in its own jurisdiction without carving out PE data	Maintain a PE allocation workpaper. Head office jurisdiction data must exclude PE-attributable amounts.
Employee headcount inconsistent with HR records or prior year	CbCR prepared from a different HR source than prior year	Lock the source and methodology at the start of each year. Compare to prior year. Explain changes.
Form No 3CEAC filed late or not filed	Indian CE team unaware of obligation or relies on Group HQ to notify	Add Form No. 3CEAC as a fixed item in the India TP compliance calendar. Calendar reminder at least 2 months before CbCR due date.
Part C omitted or minimal	Preparer treats Part C as optional	Part C is not optional it is the taxpayer's opportunity to explain data and protect against misinterpretation.

		Mandatory review of Part C by senior TP advisor before filing.
Negative profit figures entered incorrectly on portal	Portal may reject or misinterpret negative values	Test data entry with negative figures in the offline utility before final submission. A known issue in the early years of portal operation.
Year-on-year entity list changes unexplained	Entities enter/exit group without Part C explanation	Run a prior year to current year comparison of Part B as a mandatory year-end check. All changes require explanation.

The above lists are indicative. OECD has published a document titled "Common errors made by MNE groups in preparing Country-by-Country reports" wherein it highlights certain other areas of errors made by the MNE groups in filing CbC Report and the correct treatment to be adopted.

Pre-Filing Checks

Prior to accessing the Income Tax e-Filing Portal, the reporting entity should ensure that:

- Final CbCR data reviewed and approved by the appropriate finance, tax, or management personnel;
- Form No. 3CEAC filed and acknowledgement retained, where applicable;
- CEs in Part B reconciled with the Master File and prior year's CbCR;
- Part C disclosures finalized and reviewed;
- Income taxes paid and accrued reconciled with supporting records;
- Digital Signature Certificate ("DSC") of the authorised signatory verified and active;
- Portal access credentials validated; and
- Form No. 3CEAD data prepared and validated for upload.

Once the above checks have been completed, the reporting entity may proceed with the electronic filing of Form No. 3CEAD through the Income Tax e-Filing Portal.

Filing Process for Form No. 3CEAD

Login to the Income-tax e-Filing Portal (www.incometax.gov.in)

↓

Navigate to e-File → Income Tax Forms → File Form 3CEAD

↓

Select Form No. 3CEAD, Reporting Accounting Year and Filing Type

↓

Complete Parts A, B and C of Form No. 3CEAD

↓

Verify using DSC of the Authorized Signatory

↓

Submit Form No. 3CEAD Electronically

Form No. 3CEAD is required to be furnished electronically through the Income Tax e-Filing Portal and verified using the DSC of the person competent to verify the return of income, in accordance with Rule 10DB(8) of the IT Rules, 1962 and the applicable electronic filing procedures notified by the DGIT (Systems).

Post-Filing Requirements

Following successful submission of Form No. 3CEAD, the reporting entity should:

- Download and retain the filing acknowledgement generated by the portal;
- Retain a copy of the filed Form No. 3CEAD in both PDF and editable format;
- Archive supporting workpapers relating to Tables 1, 2, and 3;
- Retain reconciliations, assumptions, and explanatory notes supporting the information reported;

- Share a copy of the filed report with the Group Tax or Headquarters team, where required under group policy; and
- Update internal CbCR compliance trackers and record-retention systems.

Maintenance of a complete documentation package is important not only for demonstrating compliance with the filing requirements but also for supporting the information reported in the CbCR during any subsequent review, enquiry, or information request from the tax authorities.

Timely and accurate filing of Form No. 3CEAD is critical, as failures relating to furnishing the report, responding to information requests, or reporting inaccurate information may attract penalties under the Indian CbCR regime. The applicable penalty provisions are discussed in the ensuing section.

5.18 Conclusion

This handbook aims to provide a practical framework for managing the end-to-end CbC compliance process, including applicability assessment, data collection, preparation of Part A, B and C, quality reviews, risk assessment considerations, and filing requirements. A structured approach to CbC reporting not only facilitates timely and accurate compliance but also enables MNE groups to proactively identify and address potential risk indicators before the report is submitted to the tax authorities.

Given the evolving nature of international tax regulations, MNE groups should periodically review their CbC reporting processes and underlying data to ensure continued compliance with OECD guidance and applicable local regulations. In the context of Pillar Two, reliable CbC reporting is particularly important as CbC data forms a key input for the application of the Transitional CbCR Safe Harbour assessment.

Accordingly, establishing appropriate governance frameworks, maintaining adequate supporting documentation, and performing review procedures can help enhance the accuracy and consistency of the CbC Report and support the positions adopted therein.

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