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Transfer Pricing & International Tax for Indian GCCs: From Cost Centre to Value Creator

India's Global Capability Centre (GCC) ecosystem has moved well beyond the traditional captive back-office model. Many GCCs now undertake product development, engineering, analytics, cybersecurity, artificial intelligence, research and global decision-support functions. This evolution has direct transfer pricing and international tax consequences. A cost-plus model cannot be treated as a permanent characterisation merely because an Indian entity is captive. The appropriate tax outcome must follow the actual functions performed, assets employed, risks controlled and value created in India. The 2026 safe harbour reforms, multi-year ALP determination framework and the APA framework provide useful certainty mechanisms, but their suitability depends on the underlying operating model.

India's GCC story has changed

The scale of India's GCC ecosystem is now significant. The Economic Survey 2025-26 records approximately 1,700 GCCs in FY24, employing about 19 lakh professionals and generating an estimated revenue of USD 64.6 billion. More importantly, the Survey notes that GCCs have evolved from support-orientated functions into integral components of multinational groups, undertaking product development, engineering, analytics, cybersecurity and AI-enabled digital functions.[1]

That evolution creates a basic tax question. Can a centre that was historically characterised as a routine captive service provider continue to be priced in the same manner after it begins to employ product architects, lead global transformation programmes, influence product roadmaps, manage important risks or contribute materially to intellectual property?

For transfer pricing purposes, "GCC" is a business description, not a tax characterisation. The Indian analysis must still begin with the arm's length principle and the actual controlled transactions. Section 165 of the *Income-tax Act, 2025*, read with Rules 79 and 80 of the Income-tax Rules, 2026, requires the arm's length price to be determined using the most appropriate method, having regard, among other factors, to the nature of the transaction and the functions performed by the associated enterprises.[2] The *OECD Transfer Pricing Guidelines* similarly require accurate delineation of the transaction based on economically relevant characteristics, including functions, assets and risks, with particular attention to the conduct of the parties and control over economically significant risks.[3]

Characterisation must precede benchmarking

A recurring practical problem is to start with the desired pricing result and then draft the functional analysis around it. For a GCC, the order should be reversed. The operating model should first be understood, then the transaction characterised, and only thereafter should the pricing method and comparable set be selected.

A useful way to view GCCs is as a continuum as depicted in Table 1 below.

Indian jurisprudence supports this emphasis on functional substance. In *Rampgreen Solutions Pvt. Ltd. v. CIT*, the Delhi High Court rejected a broad approach that treated all ITeS providers as comparable, recognising the importance of differences between

1 Government of India, Ministry of Finance, Economic Survey 2025-26, para 7.34 and Chart VII.12, 'Growth of GCCs Ecosystem'.

2 Income-tax Act, 2025, section 165; Income-tax Rules, 2026, rules 79 and 80.

3 OECD, OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2022, particularly Chapters I and VI.

Table 1: Viewing GCCs as a continuum

GCC operating profile	Indicative characteristics	Primary tax focus
Routine support centre	Executes defined processes under group direction; does not control economically significant risks or make unique contributions to valuable intangibles.	A cost-based return under TNMM or another appropriate method may be supportable, subject to proper comparability analysis.
Specialist or knowledge centre	Undertakes analytics, finance, cybersecurity, data science, regulatory support or other judgement-intensive functions.	Generic low-end ITeS comparable may not reflect employee profile, complexity or value contribution.
Contract R&D or product engineering centre	Performs development activity and may influence technical outcomes, while funding, strategic direction and risk control may remain overseas.	Analyse who conceptualises the product, controls development risk, makes go/no-go decisions and owns or economically contributes to resulting intangibles.
Strategic or innovation hub	Senior India personnel may lead global products, platforms, functions or transformation programmes.	Where India and overseas entities make unique and valuable contributions or jointly control important risks, a routine tested-party approach should be re-examined.

lower-end BPO functions and higher-end KPO activities.[4] The principle is directly relevant to GCC benchmarking: industry labels cannot substitute for a detailed functional comparison.

Cost-plus is an outcome, not a permanent entitlement

There is nothing inherently inappropriate about cost-plus remuneration for a captive GCC. It can be an arm's length outcome where the Indian entity performs routine or limited-risk functions, and the foreign principal genuinely performs and controls the economically significant entrepreneurial functions. The risk arises when a model designed for yesterday's functions is carried forward after the business has changed.

Three areas merit particular attention.

First, risk control. Contractual allocation alone is insufficient where conduct points elsewhere. The current safe harbour rules themselves reflect this principle. For eligible information technology services, an Indian service provider must operate with "insignificant risk". The Rules look to whether the foreign principal performs the economically significant and critical functions, provides capital and significant assets, actually supervises and controls the activities, and retains legal and economic ownership of relevant intangibles. If the contract says that the foreign principal controls a risk, but the conduct shows that the Indian entity does so, the contractual terms are not the final determinant.[5]

Second, intangibles. A GCC need not legally own an intellectual property right to make economically significant contributions to it. For development and technology-intensive GCCs, the analysis should identify who performs and controls the development, enhancement, maintenance, protection and exploitation functions, who bears the relevant risks, and whether the Indian entity possesses unique know-how, systems, workforce capability or other valuable contributions. The objective is not to assign residual profit to India merely because skilled employees are located here. It is to ensure that the remuneration reflects



the functions actually performed and risks actually controlled.

Third, business restructuring. Section 163 expressly includes a business restructuring or reorganisation with an associated enterprise within the definition of an international transaction, irrespective of whether it has an immediate or future bearing on profit, income, losses or assets.[6] Therefore, when a GCC moves from execution to ownership of functions, when decision rights or risks are transferred to India, or when valuable teams, know-how, contractual

[4] Rampgreen Solutions Pvt. Ltd. v. CIT (2015) 377 ITR 533 (Delhi).

[5] Income-tax Rules, 2026, rule 87(1)(a) and rule 87(2).

[6] Income-tax Act, 2025, section 163(1)(e).

> "For development and technology-intensive GCCs, the analysis should identify who performs and controls the development, enhancement, maintenance, protection and exploitation functions, who bears the relevant risks, and whether the Indian entity possesses unique know-how, systems, workforce capability or other valuable contributions."

rights or business opportunities are relocated, the issue may be wider than a change in markup. The group should consider whether a restructuring transaction has occurred and whether independent parties would have required compensation.

The 2026 certainty tools: safe harbour, multi-year ALP determination and APA

The *Income-tax Rules, 2026,* have made the safe harbour regime more relevant to GCCs. "Information technology services" now cover software development services, IT-enabled services, KPO services and software-related contract R&D. For an eligible transaction, the safe harbour requires an operating profit margin of at least 15.5 per cent on operating expenses where aggregate operating revenue does not exceed INR 2,000 crore.[7]

For qualifying IT services, a valid safe harbour option continues for five consecutive tax years, with the INR 2,000 crore threshold tested for the first year.[8] This can materially reduce annual pricing uncertainty for a stable limited-risk model. However, it should not be viewed simply as a margin election. The eligibility conditions require the underlying functions and risk profile to fit the safe harbour framework. Transfer pricing documentation and reporting obligations also continue notwithstanding the election.[9]

There is also a strategic trade-off. Rule 93 provides that where the transfer price is accepted under the safe harbour provisions, the taxpayer cannot invoke the mutual agreement procedure under the applicable tax treaty for that transaction.[10] Groups with material bilateral double taxation exposure should therefore compare the certainty offered by safe harbour with the protection available through a bilateral APA.

The APA programme has become increasingly significant. CBDT entered into 219 APAs in FY2025-26, including 84 bilateral APAs, taking the cumulative number to 1,034.[11] For a large GCC with recurring transactions, a stable operating model and significant potential controversy, an APA can address method selection, mark-up, cost base, segmentation, critical assumptions and, in a bilateral case, double taxation risk over multiple years.

The Rules also contain a specific procedural framework for unilateral APAs where the primary covered transaction is eligible IT services. If such an agreement is not entered into within two years from the end of the quarter in which the application is made, the proceedings are treated as closed, subject to a taxpayer-requested extension of six months.[12] This should be described as a procedural time limit rather than a guarantee that an APA will necessarily be concluded within two years.

A separate 2026 reform permits an option for determination of arm's length price for two succeeding tax years in the same transfer pricing proceeding. The mechanism applies only where the relevant transactions remain similar, including material consistency in functions, assets and risks, no change in the pricing method and no material change in contractual allocation of responsibilities, risks and benefits.[13] This is especially relevant to GCCs because it creates a useful dividing line: a stable service model may benefit from multi-year certainty, while a GCC undergoing genuine functional transformation may not satisfy the required consistency.

The international tax perimeter cannot be separated from TP

As GCCs become more integrated with global operations, the analysis should not stop at the Indian entity's margin.

Permanent establishment is one such area. The existence of an Indian subsidiary or the outsourcing of work to India does not, by itself, create a fixed place for PE of the foreign enterprise. In *E-Funds IT Solution Inc.*, the Supreme Court emphasised that the foreign enterprise must have a fixed place in India at its disposal through which it carries on its own business.[14] However, the PE analysis remains

7 Income-tax Rules, 2026, rules 88 and 89(2), Table, Sl. No. 1.

8 Income-tax Rules, 2026, rule 91(1) and (2).

9 Income-tax Rules, 2026, rule 89(6), read with sections 171 and 172 of the Income-tax Act, 2025.

10 Income-tax Rules, 2026, rule 93.

11 Press Information Bureau, Ministry of Finance, 'CBDT signs record 219 Advance Pricing Agreements (APAs) in FY 2025-26', 31 March 2026.

12 Income-tax Rules, 2026, rule 109(13) and (14).

13 Income-tax Rules, 2026, rule 82, particularly rule 82(5).

14 Assistant Director of Income-tax v. E-Funds IT Solution Inc. (2017) 399 ITR 34 (SC).

treaty-specific and fact-dependent. The role of foreign personnel, authority exercised by India-based personnel, contract negotiation, customer interaction, secondments and the actual use of premises can all become relevant under the applicable DTAA, as modified where relevant by the Multilateral Instrument.

Transfer pricing and PE attribution also intersect. In *Morgan Stanley*, the Supreme Court recognised that where an Indian associated enterprise constituting the relevant PE has been remunerated at arm's length and the transfer pricing analysis fully captures the functions performed and risks assumed, no further profit may remain for attribution. Conversely, where the analysis does not adequately capture those functions and risks, further attribution may be required.[15] For a GCC, this makes the quality of the FAR analysis important beyond the Indian entity's transfer pricing assessment.

Place of effective management, or POEM, is another emerging governance issue where senior global roles migrate to India. Under section 6(10) of the *Income-tax Act, 2025*, a foreign company may be resident in India if its place of effective management is in India, meaning the place where key management and commercial decisions necessary for the business as a whole are, in substance, made.[16] CBDT's POEM guidance requires a fact-based enquiry into who actually makes such decisions and where they are made, with substance prevailing over form.[17] The presence of senior executives in an Indian GCC does not automatically establish POEM. The relevant question is whether they are making business-wide key management decisions for the foreign company rather than merely managing Indian operations or implementing global policy.

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Cross-border payments should also be reviewed separately from the service-provider margin. Royalty, software, technical service, management fee, cost allocation and secondment arrangements may raise withholding and treaty-characterisation questions. The answer may differ materially depending on the wording of the relevant DTAA, including whether a fees-for-technical-services or fees-for-included-services article contains a "make available" condition. A GCC tax framework should therefore link transfer pricing, withholding tax and treaty analysis rather than treat them as independent compliance streams.

What should GCC tax governance look like?

For a mature GCC, the annual transfer pricing study should be the output of the governance process, not the first time the group examines its functional profile.

A practical framework should include an annual review of decision rights and risk control; mapping of global and India-based senior roles; identification of changes in product ownership, IP-related functions and customer-facing activity; transaction-level and segmental financial data; intercompany agreements aligned with actual conduct; evidence supporting the foreign principal's control of important risks where a limited-risk model is adopted; and contemporaneous documentation of significant restructurings.

The group should also establish trigger events for a deeper review. Examples include appointment of a global product or functional head in India, transfer of R&D leadership, commencement of direct customer negotiations, migration of IP-related decision-making, assumption of material market or development risk, major acquisitions or reorganisations, or a significant change in the GCC's employee and cost profile.

The central point is straightforward. A GCC can remain a limited-risk service provider even while becoming larger and more sophisticated, provided the facts support that characterisation. Equally, growth in strategic decision-making, control of risk or unique contributions may require a different pricing analysis. Neither outcome should be presumed.

Closing Perspective

India's GCC growth is creating a new generation of transfer pricing and international tax questions. The challenge is no longer merely to benchmark a markup at year-end. The more important task is to ensure that the legal agreements, transfer pricing characterisation, risk allocation, IP framework and international tax position continue to reflect how the business is actually operated. For tax leaders and advisers, the right starting question is therefore not "What margin should the GCC earn?" but "What has the GCC become, and does the tax model still match it?"

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[15] DIT (International Taxation) v. Morgan Stanley & Co. Inc. (2007) 292 ITR 416 (SC).

[16] Income-tax Act, 2025, section 6(10).

[17] CBDT Circular No. 6 of 2017 dated 24 January 2017, Guiding Principles for determination of Place of Effective Management (POEM).