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# TRANSFER PRICING

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## **Question 1:**

Alpha Inc. having its business in Malaysia has advanced a loan of MD 1,60,000 to Beta Ltd, India. Book value of total assets of Beta Ltd was ₹125 lakhs. Beta Ltd provides software backup support to Alpha Inc. Beta Ltd has spent 50,000 man hours during the financial year 2025-26 for the services rendered to Alpha Inc. The cost for Beta Ltd is MD 75/manhour. Beta Ltd has billed Alpha Inc. at MD 90.75/manhour.

Gama Ltd. in India which has a similar business model, provides software backup support to Olive Inc. in Penang, Malaysia. Gama Ltd's cost and operating profits are as hereunder:

Particulars	₹ in lakhs
Direct costs	600
Indirect costs	200
Operating profits	200

- (1) Calculate Arm's Length Price for the transaction between Beta Ltd. and Alpha Inc. using the Transactional Net Margin Method. Assume 1MD = ₹45.
- (2) Explain, if there is any adjustment to be made to the total income of Andes Ltd.

Note: MD = Malaysia Dollars

## **Answer:**

Two enterprises are deemed to be associated enterprises where one enterprise **advances loan of at least 51%** of the book value **of the total assets** of the other enterprise.

In this case, since Alpha Inc., a foreign company, has advanced loan to Beta Ltd., an Indian company, and such loan constitutes **57.6%** [ $(₹ 45 \times 1,60,000 \times 100/1,25,00,000)$ ] of the book value of total assets of Beta Ltd., Alpha Inc and Beta Ltd. are deemed to be **associated enterprises**.

Since the transaction of provision of software backup support by Beta Ltd. to Alpha Inc. is an international transaction between associated enterprises the provisions of transfer pricing would be attracted in this case.

### COMPUTATION OF ALP

Particulars	Malaysian Dollars
Total Cost incurred by assessee [Beta Ltd] [MD 75 per man hour x 50,000]	37,50,000
<u>Add: Normal NP (25% on Cost) (Note 1)</u>	+ 9,37,500
Arm's length price in MD	46,87,500
Arm's length price in ₹ (MD 46,87,500 x ₹45)	21,09,37,500

#### Note 1:

Normal NP % can be calculated from comparable uncontrolled transaction between Gama Ltd. and Olive Inc

Particulars	₹ in lakhs
Direct Cost	600
Indirect Cost	200
Total cost	800
Net profit	200
NP % on cost	25%

**Conclusion:** Since the ALP is ₹21,09,37,500, the genuine price is ₹21,09,37,500 but Beta Ltd has billed it's AE Alpha Inc ₹20,41,87,500 (MD 90.75 x 50,000 man hours x ₹45). Hence, the difference of ₹67,50,000 shall be added to the income of Beta Ltd.

#### Question 2:

NANO Inc., a German Company, holds 45% of equity in Hitech Ltd., an Indian Company. Hitech Ltd. is engaged in development of software and maintenance of the same for customers across the globe. Its clientele includes NANO Inc.

During the financial year 2025-26, Hitech Ltd. had spent 2400 man hours for developing and maintaining software for NANO Inc. with each hour being billed at ₹1,300. Cost incurred by Hitech Ltd. for executing work for NANO Inc. amounts to ₹20 lakhs.

Hitech Ltd. had also undertaken developing software for Modi Industries, for which Hitech Ltd. had billed at ₹2,700 per man hour. The persons working for Modi Industries and NANO Inc. were part of the same team and were of matching credentials and calibre, Hitech Ltd. made a gross profit of 60% on Modi Industries work. Hitech Ltd.'s transactions with NANO Inc. are comparable to transactions with Modi Industries, subject to the following differences:

- (i) NANO Inc. gives technical support to Hitech Ltd., which can be valued at 8% of the normal gross profit. Modi Industries does not provide any such support.
- (ii) Since the work for NANO Inc. involved huge number of man hours, a quantity discount of 14% of normal gross profits was given.
- (iii) Hitech Ltd. had offered 90 days credit to NANO Inc., the cost of which is measured at 2% of the normal billing rate. No such facility was offered to Modi Industries.

Compute arm's length price as per cost plus method and the amount of increase in total income of Hitech Ltd.

**Answer:**

### COMPUTATION OF ARMS LENGTH PRICE

(for Billing by Hitech Ltd. to NANO Inc.)

		₹
Direct Cost and Indirect Cost	51.2	20,00,000
<u>Add: Adjusted GP % (48.8% on sales)</u>	48.8	+ 19,06,250
Arms Length Price	100	39,06,250

**Conclusion:** Since the ALP is ₹ 39,06,250, the genuine price of transaction of Hitech Ltd. with NANO Inc. is ₹ 39,06,250 but Hitech Ltd. has shown only ₹ 31,20,000 (1,300 x 2,400).

Hence, the **difference of ₹ 7,86,250 shall be added to the income of Hitech Ltd.**

→ **Adjusted GP %:**

Normal GP % in uncontrolled transaction with Modi Ind.	60%
<u>Less: Value of technology support [60% x 8%]</u>	- 4.8%
<u>Less: Quantity discount [60% x 14%]</u>	- 8.4%
<u>Add: Credit facility [100% x 2%]</u>	+ 2%
<b>Adjusted GP <i>on sales</i></b>	<b>48.8%</b>

**Question 3:**

Earth (P) Ltd., Calcutta is engaged in trading of electronic goods. It purchased goods from its associated enterprise Sun Ltd., Singapore, and also from unrelated party, Oceania Ltd., UK.

For the F.Y.2025-26, the gross profit margin was 15% on the sale of goods of Sun Ltd., whereas it was 20% in the case of Oceania Ltd.

Warranty of 6 months was provided by Sun Ltd. whereas Oceania Ltd. gave warranty of 1 year. The cost of warranty may be taken as 2% of the sale price.

Sun Ltd.'s brand value is internationally known and the benefit of the brand value can be taken as 1% of sale price.

During the F.Y.2025-26, it sold goods of Sun Ltd. for ₹20 crores and of Oceania Ltd. for ₹15 crores.

Compute the ALP of the transaction between Earth (P) Ltd. and Sun Pte Ltd., Singapore by applying the Resale Price Method, considering the facts of the case.

**Answer:**

**COMPUTATION OF ARMS LENGTH PRICE**

(for purchase by Earth (P) Ltd. from Sun Ltd.)

Particulars	₹
Resale price of goods purchased from Sun Ltd.	20,00,00,000
<u>Less:</u> Normal GP margin (20% on sales)	4,00,00,000
	16,00,00,000
<u>Less:</u> Purchase related expenses	Nil
	16,00,00,000
<b><u>Add/less: Adjustments:</u></b>	
Brand value (1% of sale price)	+ 20,00,000
Warranty (2% of sale price x 6/12)	- 20,00,000
<b>Arm's length price (Purchase Price)</b>	<b>16,00,00,000</b>

**Question 4:**

ABC (P) Ltd., Bangalore is engaged in the manufacture of electronic goods and exporting the same to various associated and other enterprises across Southeast Asia. The report with respect to its international transactions with AE has been furnished for all years. The company has applied for APA in respect of the transactions with its AE. Application was filed on 15th February 2023. The company also applied in respect of the international transactions to which APA applies for rollback benefit which was agreed and signed in January 2024. The details of the status of income tax assessments are as follows:

**A.Y. 2018-19:**

The matter is pending before High Court with regard to acquisition of a company by the assessee and the dispute is about set off of loss of the erstwhile company.

**A.Y. 2019-20 and A.Y. 2020-21:**

There is no dispute and the assessments have been completed.

**A.Y. 2021-22:**

The assessment for the A.Y. 2021-22 was completed by making reference to the TPO who enhanced the arm's length price of the international transaction by ₹ 500 lakhs.

**A.Y. 2022-23:**

ALP of international transaction was disputed before the tribunal which set aside the order for fresh consideration by the Assessing Officer in November 2023.

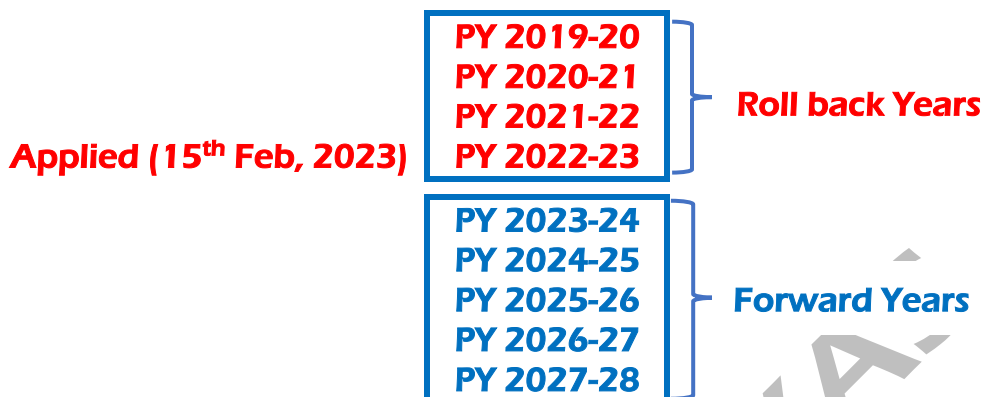
**A.Y. 2023-24:**

The income tax return ('ITR') was filed on 29th December 2023.

If the APA is applied, the ALP determined for the A.Y. 2021-22 would get enhanced by ₹ 300 lakhs as against ₹ 500 lakhs originally determined by TPO.

Discuss the applicability of rollback agreement for various assessment years in case of ABC (P) Ltd.

**Answer:**



Applicability of APA benefit for rollback years

P.Y./A.Y.	Whether roll back benefit would be available?	Reason
P.Y. 2017-18 (A.Y.2018-19) And P.Y. 2018-19 (A.Y.2019-20)	<b>No</b>	Roll back period means <b>max. 4 P.Y.s</b> , preceding P.Y.2023-24, being the first of the 5 consecutive previous years specified in the APA. Since P.Y. 2017-18 and P.Y. 2018-19 fall <b>beyond</b> the said <b>4-year period</b> , roll back benefit cannot be availed in respect of these years.
P.Y.2019-20 (A.Y.2020-21)	<b>Yes</b>	Since P.Y. 2019-20 falls <b>within</b> the said <b>4-year period</b> , roll back benefit can be availed in respect of this year.
P.Y.2020-21 (A.Y.2021-22)	<b>Yes</b>	Since P.Y. 2020-21 falls <b>within</b> the said <b>4-year period</b> , roll back benefit can be availed in respect of this year even though the addition in income on account of ALP as per APA is less than that made by TPO. <b>Note:</b> Addition in income on account of ALP as per APA should not be less than that made by Assessee.

P.Y.2021-22 (A.Y.2022-23)	<b>Yes</b>	Roll back provisions are applicable for A.Y. 2022-23, since ITAT has only set aside the order for fresh consideration and the matter has <b>not reached finality</b> .
P.Y.2022-23 (A.Y.2023-24)	<b>No</b>	Rollback provisions are not applicable for A.Y. 2023-24, since the <b>return was filed belatedly</b> on 29.12.2023.

**Question 5:**

Delta Ltd., an Indian company, declared total income of ₹ 2,100 crores before making primary adjustment, if required, in respect of the loan transaction with Alps Inc, a Swiss company, for the year ended 31.03.2026.

Alps Inc. had advanced a loan of Euro 350 crores carrying interest @ 9% p.a. on 1.4.2025 to Delta Ltd. The total book value of assets of Delta Ltd. and was ₹60,000 crores. Assume that the amount of interest computed @ 9% p.a. and payable to Alps Inc. does not exceed 30% of EBITDA and that this is the only loan taken by Delta Ltd.

Alps Inc also advanced a loan of similar nature and amount to Beta Ltd., another Indian company @ 7% p.a. during the F.Y. 2025-26. The value of 1 Euro may be taken as ₹ 88. You are required to:

- (i) Examine whether transfer pricing provisions under the Income-tax Act, 1961 would be attracted in this case and if so, on what basis.
- (ii) Advise Delta Ltd. regarding primary adjustments, if any, to be made to the above income keeping in mind the transfer pricing provisions contained in the Income-tax Act, 1961 and compute the total income for A.Y.2025-26.
- (iii) Elaborate on secondary adjustments, if any, required to be made under the provisions of Income-tax Act, 1961, assuming that Delta Ltd. has made the primary adjustment suo moto.
- (iv) Calculate the additional income-tax liability, if Delta Ltd. opts for payment of additional income-tax in lieu of making secondary adjustment.

**Answer:**

- (i) Alps Inc, a Swiss company has advanced a loan to Delta Ltd., an Indian company which constitutes 51.33% of the book value of total assets of Delta Ltd. [Euro 350 crores x ₹ 88/Rs.60,000 crores]. Since the loan advanced by Alps Inc is atleast 51% of the book value of the total assets of Delta Ltd., the two companies are deemed to be associated enterprises. A loan transaction between two enterprises, one of whom is a non-resident (Alps Inc. Switzerland, in this case), would be an international transaction. Accordingly, transfer pricing provisions would be attracted in this case.
- (ii) The interest rate charged by Alps Inc. on loan advanced to Delta Ltd. is 9% p.a. whereas the arm's length interest charged by Alps Inc. in a comparable uncontrolled transaction with Beta Ltd., another Indian company, is 7% p.a. Therefore, the arm's length adjustment (primary adjustment) to be made is = 9% - 7% = 2% of ₹ 30,800 crores (Euro 350 crores x ₹ 88, being the value of 1 Euro) = ₹ 616 crores. The total income (after primary adjustment) of Delta Ltd for P.Y.2025-26 = ₹ 2,100 crores + primary adjustment of ₹ 616 crores = ₹ 2,716 crores.
- (iii) Since the primary adjustment has been made by Delta Ltd. suo moto while filing its return of income for A.Y.2026-27, Delta Ltd. should carry out secondary adjustment in the following manner. The excess money (i.e., ₹ 616 crores) lying with Alps Inc must be repatriated within 90 days from the due date for filing return of income i.e. latest upto 28th February, 2027. If the excess money is not repatriated on or before 28th February, 2027, it would be deemed as an advance made by Delta Ltd. to Alps Inc and deemed interest income would be computed from 30.11.2026 at LIBOR + 3%, since the loan is denominated in Euros. Such interest for the period from 30.11.2026 to 31.3.2027 (assuming that it has not been repatriated upto 31.3.2027) would be included in the total income of Delta Ltd. for P.Y.2026-27.
- (iv) If Delta Ltd. opts for payment of additional income-tax, it has to pay ₹ 129.153 crores [i.e. 616 crores x 18% Tax + 12% SC + 4% HEC].

**Question 6:**

Paras Ltd. is an Indian company engaged in the manufacturing of supreme quality mink blankets. It has total borrowings of ₹ 60 crores by way of loan as on 31.03.2026. Saksham Ltd. of Germany imported 5 lakh blankets from Paras Ltd. for sale in Germany @ ₹ 2,000 per unit. Paras Ltd. sold similar blankets to other dealers in Germany @ ₹ 2,100 per unit. Paras Ltd. received a bank guarantee on 1.04.2024 for availing a cash credit limit of ₹ 9 crores for which Saksham Ltd. was the guarantor. The terms of trade for other dealers was to make payment within 1 month from the date of sale of goods by Paras Ltd., whereas for Saksham Ltd., the credit period allowed was 3 months from the date of sale of goods. The cost of capital was 12% per annum and the supply of goods is assumed to be uniform throughout the year.

- 1) Whether Paras Ltd. and Saksham Ltd. are associated enterprises. If yes, compute the ALP of the transaction between them and the amount to be added to the income of Paras Ltd., if any, by way of an ALP adjustment.
- 2) What is the time limit for the repatriation of such excess money assuming that the above adjustments to the transfer price have been made suo-moto by Paras Ltd. in its return of income? What are the implications if the excess money is not repatriated within such prescribed time limit?
- 3) Calculate the additional income-tax liability, if Paras Ltd. opts for payment of additional income-tax in lieu of making secondary adjustment.

**Answer:**

- (1) Paras Ltd. and Saksham Ltd. of Germany are deemed to be associated enterprises, since Saksham Ltd., a German company provides guarantee for loan of ₹ 9 crores taken by Paras Ltd., which is 15% of the total borrowings (i.e., more than 10%) of Paras Ltd. i.e., ₹ 60 crores.

As per section 92B, the transactions entered into between Paras Ltd. and Saksham Ltd., two associate enterprises, for sale of blankets falls within meaning of "international transaction".

As Paras Ltd. has sold similar blankets to other dealers, being unrelated entity, at ₹ 2,100 per unit, the transactions between Paras Ltd. and such unrelated party can be considered as a comparable uncontrolled transaction for the purpose of determining the arm's length price of the transactions between Paras Ltd. and Saksham Ltd. However, such figure needs to be adjusted by the functional adjustments.

**COMPUTATION OF ALP**

(for transaction between Paras Ltd. and Saksham Ltd.)

Particulars	₹
Price charged in comparable UT	2,100
<u>Add:</u> Adjustment of additional credit provided to Saksham Ltd. $(2,100 \times 12\% \times 2/12)$	42
Arm's length price per unit	2,142

Since the ALP is ₹ 2,142 per unit, the genuine SP is ₹ 2,142 per unit but Paras Ltd has declared only ₹ 2,000 per unit. Hence, the difference of ₹ 142 per unit shall be added to the income of Paras Ltd. Total addition to the income of Paras Ltd. on account of ALP is ₹ 7,10,00,000 [5,00,000 units x ₹ 142 per unit].

- (2) Where the primary adjustment to transfer price has been made suo moto by Paras Ltd. in its return of income, the time limit for the repatriation of such excess money (i.e., ₹ 710 lakhs) available with the associated enterprise (i.e., Saksham Ltd.) is within 90 days from the due date of filing of return i.e. 28.2.2026.

If the excess money (i.e., ₹ 710 lakhs) available with the associated enterprise (i.e., Saksham Ltd.) is not repatriated to India within 90 days from the due date of filing return then it would be deemed as an advance made by the Paras Ltd. to its associated enterprise, Saksham Ltd.

Deemed Interest income would be calculated on such advance at SBI rate + 3.25%, since the international transaction is denominated in Indian rupee. Such interest for the period from 30.11.2026 to 31.3.2027 (assuming that it has not been repatriated upto 31.3.2027) would be included in the total income of Delta Ltd. for P.Y.2026-27.

- (3) If Paras Ltd. opts for payment of additional income-tax, it has to pay ₹ 148.861 lakhs [i.e. ₹ 710 lakhs x 18% Tax + 12% SC + 4% HEC].

**Question 7:**

KVS Ltd., the assessee, has sold goods on 12.01.2026 to L Ltd., located in notified jurisdictional area (NJA), for ₹10.50 crores.

During the current financial year, KVS Ltd. charged ₹11.50 crores from AJ of New York and ₹12 crores from KP of London for sale of identical goods and both of which are neither associated enterprise of KVS Ltd. nor they are situated in any NJA.

While sales to AJ and KP were on CIF basis, the sale to L Ltd., was on FOB basis (which paid ocean freight and insurance amounting to ₹20 lakhs on purchases from KVS Ltd).

India has a Double Taxation Avoidance Agreement with the U.S.A. and U.K.

The assessee has a policy of providing after sales support service to the tune of ₹14 lakhs to all customers except L Ltd. which procured the same locally at a cost of ₹18 lakhs.

Compute the ALP for the sales made to L Ltd., and the amount of consequent increase, if any, in the profit of the assessee-company.

**Answer:**

A transaction with a person located in a NJA would be deemed to be an **international transaction** and all parties to the transaction would be deemed as **associated enterprises**. Hence, the transactions between KVS Ltd, an Indian company and L Ltd., located in NJA, would be deemed to be international transactions between associated enterprises. Accordingly, all the provisions of transfer pricing would be attracted case of such a transaction.

The transactions of KVS Ltd, with AJ of New York and KP of London for sale of identical goods are comparable uncontrolled international transactions, since they are neither associated enterprises nor are they situated in NJA. Hence, Comparable Uncontrolled Price (CUP) method can be used to determine ALP.

Where **less than 6 prices** are determined by the most appropriate method, then the ALP shall be **arithmetic mean** of such prices. However, the **benefit of tolerance band** (3% of actual price) **would not be available** in respect of transaction with person located in NJA.

**COMPUTATION OF ALP USING CUP METHOD**

Particulars	AJ [crores]	KP [crores]
Price charged in comparable UT	11.50	12.00
<u>Less:</u> Ocean freight and insurance	- 0.20	- 0.20
	11.30	11.80
<u>Less:</u> Cost of after-sales support service	- 0.14	- 0.14
Arm's Length Price	11.16	11.66
Arithmetic mean [(₹11.16 crores + ₹11.66 crores) / 2]		11.41
<u>Less:</u> Actual Price at which goods were sold to L Ltd		10.50
Increase in profit of KVS Ltd.		0.91

**Question 8:**

On 23rd June 2024, R Ltd., an Indian Company borrowed 100 crores from M Ltd., a company incorporated in Singapore. The said loan is repayable over a period of 6 years. This loan is guaranteed by L Ltd., a company incorporated in U.S.A. L Ltd. holds 30% shares in R Ltd. R Ltd. provides you the following information with respect to its P/L account [in lakhs].

Particulars	F.Y. 24-25	F.Y. 25-26	Particulars	F.Y. 24-25	F.Y. 25-26
Employees Benefit Exps	280	301	Gross Profit	1630	1550
Interest paid to M Ltd.	589	238			
Depreciation	250	254			
Income Tax	271	232			
Profit	240	525			
	1630	1550		1630	1550

Calculate the income under the head Profits and Gains from business and profession of R Ltd. for the Assessment Year 2026-27, assuming the gross profit is calculated as per the provisions of Income-tax Act and Depreciation is also as per Income-tax Rules. Give appropriate reasons of your workings. Assume none of the companies are engaged in the business of banking.

**Answer:**

If an Indian company pays interest in respect of any debt issued by its non-resident associated enterprise and such interest exceeds ₹1 crore, then such interest paid or payable in excess of 30% of EBITDA shall be disallowed as per section 94B. This disallowance is applicable whether the loan is given by AE or an outsider who is guaranteed by the AE or an outsider with whom, AE has deposited matching funds.

In the present case, since L Ltd., a US company, holds 30% share in R Ltd., an Indian company, i.e. more than 26%, L Ltd. and R Ltd. are deemed to be associated enterprise.

Since loan of ₹100 crores taken by R Ltd., an Indian company from M Ltd., a Singapore company, is guaranteed by L Ltd., an associated enterprise, interest paid or payable to M Ltd. shall be considered for the purpose of limitation of interest deduction under section 94B.

**COMPUTATION OF PGBP [for A.Y. 2026-27]**

	23-24
Gross Profit	1,550
<u>Less:</u> Employee benefits expenses	- 301
EBITDA	1,249
<u>Less:</u> Interest paid to M Ltd. <b>(Note 1)</b>	- 374.70
<u>Less:</u> Depreciation	- 254
Taxable PGBP	620.60

**Note 1:**

	23-24	24-25
<b>EBITDA</b> [GP – Employee expenses]	<b>1,350</b>	<b>1,249</b>
Interest (Current Year)	589	238
Interest (B/f)	—	184
<b>Interest Allowed [30% of EBITDA]</b>	<b>405</b>	<b>374.70</b>
Excess C/f to next year	184	47.30

**Questio 9:**

Indiana Ltd., an Indian company engaged in the manufacturing and trading of electronic projectors. Indiana Ltd. has the following stakes in different foreign entities:

It holds 30% voting rights in Star GmbH, a German company.

It appoints 6 directors in Moon Inc., an American company. Moon Inc. has 15 directors on its board.

It has given guarantee for a loan amounting to Euro 12 million taken by Astroid Ltd. of the UK. The value of total borrowing of Astroid Ltd. is Euro 150 million and the book value of total assets of Astroid Ltd. is Euro 160 million.

Indiana Ltd. entered into the following transactions with these entities during the F.Y. 2025-26:

**Transaction with Star GmbH:**

Indiana Ltd. bought 1,000 units of electronic projectors from Star GmbH for ₹ 15,000 per unit for the purpose of resale in India. It sold these projectors in India without doing any modification thereon. The gross profit margin earned from such resale was 20% of Sale price. Star GmbH provided after-sales warrantee of 1 year. The cost of warrantee is 3% of sale price.

**Transaction with Moon Inc.**

Indiana Ltd. bought 1,000 units of similar electronic projectors (as purchased from Star GmbH) from Moon Inc. for ₹ 14,000 per unit for the purpose of resale in India. It sold these projectors in India without doing any modification and earned gross profit margin of 30% of sale price. Moon Inc. provided after-sales warrantee of 9 months. The cost of warrantee is 3% of sale price.

**Transaction with Astroid Ltd.**

Indiana Ltd. provided consultancy services to Astroid Ltd. for ₹ 8,000 per hour for 5,000 hours. It provided similar services to M/s Comet Ltd., an unrelated Indian company for ₹ 9000 per hour.

You are required to discuss:

- (i) Whether Star GmbH, Moon Inc. and Astroid Ltd. are associated enterprises of Indiana Ltd. as per section 92A.
- (ii) Compute the Arm Length Price (ALP) of the international transactions made between them, wherever applicable.

**Answer:**

(i)

Indiana Ltd., an Indian company and **Star GmbH** are **associated** enterprises as per section 92A, since Indiana Ltd. holds more than 26% of voting power i.e., **30%** in Star GmbH.

Indiana Ltd. and **Moon Inc.** are **not associated** enterprises as per section 92A, since Indiana Ltd. appoints less than half of the directors of Moon Inc. i.e., only 6 out of 15 directors.

Indiana Ltd. and **Astroid Ltd.** are **not associated** enterprises as per section 92A, since Indiana Ltd. guarantees less than 10% i.e., 8%, in this case (Euro 12 million/ Euro 150 million) of the total borrowing of Astroid Ltd.

(ii)

The transaction of purchasing electronic projectors from Star GmbH is an "international transaction". Hence, transfer pricing provisions would be attracted in this case. Indiana Ltd. purchases similar electronic projectors from Moon Inc., the transaction would be uncontrolled transaction.

**COMPUTATION OF ARM'S LENGTH PRICE**

	₹
Resale price of projectors purchased from Star GmbH [(Cost 15,000 + Profit ¼ of 15,000) x 1,000 unit]	1,87,50,000
<b>Less:</b> Normal GP margin between Indiana & Moon [30% on sale price]	- 56,25,000
	1,31,25,000
<b>Add:</b> Adj. for warranty [1,87,50,000 x 3% x 3/12] [Star GmbH provides warranty for 1 year whereas Moon Inc. has provided warranty of 9 months. Therefore, adjustment for the cost of such warranty has to be carried out for 3 months @3% of sales price.]	+ 1,40,625
<b>Arm's length price</b>	<b>1,32,65,625</b>

**Question 10:**

Surya Ltd., an Indian Company, is engaged in manufacturing activities by importing raw material from Sun Inc. of UK. Sun Inc. has a total loan of 1 million pounds from XYZ Bank of UK. Out of that, Surya Ltd. guarantees 20% of total borrowings in case of any default made by Sun Inc.

During the financial year 2023-24, Surya Ltd. imported goods for ₹ 60 crores from Sun Inc. Sun Inc. supplied similar raw materials to unrelated parties with a mark-up of 20%, whereas, for Surya Ltd. it provided a mark-up of 25%. Surya Ltd. was allowed to use the brand name of Sun Inc., without any payment and whereas the unrelated parties cannot use such brand name in India. The annual cost of brand value is ₹ 100 Lakhs. Surya Ltd. was allowed credit period of 2 months, whereas for the unrelated parties, Sun Inc. allowed only 1 month as credit period. The interest cost may be taken as 12% per annum and the purchases were uniform throughout the year.

You are required to compute the ALP and the adjustments to be made to the income of Surya Ltd.

**Answer:**

Surya Ltd., an Indian company and Sun Inc. of UK, are deemed to be associated enterprises as per section 92A(2), since Surya Ltd. guarantees 10% or more of total borrowings of Sun Inc.

Further, the transaction of purchasing raw material falls within the meaning of “international transaction” under section 92B. Hence, transfer pricing provisions would be attracted in this case.

**COMPUTATION OF ARM’S LENGTH PRICE**

[Comparable Uncontrolled Price Method]

Particulars	₹ in cr.
Purchase Price charged by AE (Sun Inc.)	60.00
<u>Less:</u> Mark up in Surya @ 25% [₹ 60 crores x 5/125]	- 12.00
	48.00
<u>Add:</u> Mark up in uncontrolled transaction @ 20%	+ 9.60
Purchase Price in uncontrolled transaction	57.60
<u>Add:</u> Adjustment for brand value	+ 1.00
<u>Add:</u> Adjustment for cost of credit [57.60 x 12% x 1/12]	+ 0.576
Arm’s length price of raw material purchase	59.176

**Conclusion:**

Since the ALP is ₹59.176 crores, the genuine purchase price is 59.176 crores. However, assessee has shown purchase from AE (Sun) at a higher price ₹60 crores. Hence, the difference of ₹ 0.824 crores shall be added back to the Net Profit of assessee.

**Question 11:**

On 1.4.2025, Focus Ltd., an Indian company, borrowed ₹ 50 crores @ 9.5% p.a. from Max Inc., a US entity, thereby increasing its total borrowings to ₹ 65 crores. The said loan is guaranteed by Hik Inc., another US entity. The book value of total assets of Focus Ltd. is ₹ 180 crores.

Focus Ltd. imported turbo equipment worth ₹ 30 crores from Hik Inc. Import duty of ₹ 4.50 crores on the same was paid by Focus Ltd. The equipment was sold to T Ltd., an unrelated party for ₹ 40 crores. Normal GP margin of Focus Ltd. in similar uncontrolled transaction is 20% on sale.

Net profit of Focus Ltd. of A.Y.2026-27 was ₹ 8 crores after debiting interest of ₹ 6 crores (out of which ₹ 1.25 crores interest pertaining to local borrowings), depreciation of ₹ 2.5 crores and income tax of ₹ 1.5 crores.

Based on the facts of the above case scenario, choose the most appropriate answer to Q. 1 to 6 below:

1. What is the amount of interest to be allowed in the computation of total income of Focus Ltd. for A.Y. 2026-27, if for A.Y. 2025-26 there was an interest expenditure disallowed to the extent of ₹ 4 crores under section 94B?  
(a) ₹ 6,65,00,000 (b) ₹ 4,75,00,000  
(c) ₹ 6,00,00,000 (d) ₹ 3,65,00,000
2. The transfer pricing adjustment for the arm's length purchase price to be made in the computation of total income of Focus Ltd. for A.Y. 2026-27 would be:  
(a) ₹ 3,00,00,000  
(b) ₹ 2,50,00,000  
(c) ₹ 2,00,00,000  
(d) No adjustment is required, since transfer pricing adjustment cannot result in reduction of income

3. If Focus Ltd. repatriated the excess money on 31.03.2027, what will be the interest income that would be added to its total income of A.Y.2027-28, if SBI's one-year marginal of lending rate is 11.25% on 1.4.2026 and 10.25% on 1.4.2027? Assume that Focus Ltd. suo motu made the primary adjustment in its books of account and filed its return for A.Y.2026-27 on 30.11.2026.
- (a) ₹ 12,01,712      (b) ₹ 12,08,333  
(c) ₹ 9,32,363      (d) ₹ 8,49,486
4. If Focus Ltd. decides not to repatriate the excess money and instead, pay additional income-tax on the entire excess money, then, what would be the additional income-tax payable?
- (a) ₹ 62,89,920      (b) ₹ 52,41,600  
(c) ₹ 41,93,280      (d) ₹ 53,87,200
5. If Focus Ltd. decides to pay additional income-tax on the entire excess money on 15.03.2027, should interest be calculated and added to its total income of A.Y.2027-28? If so, what is the amount to be added? Assume that SBI one-year marginal cost of lending rate is 11.25% on 1.4.2026 and 10.25% on 1.4.2027 -
- (a) No, since it has paid additional income-tax on the entire excess money in the P.Y.2026-27  
(b) Yes; ₹ 9,70,890  
(c) Yes; ₹ 10,42,808  
(d) Yes; ₹ 8,09,075
6. In addition to above facts, assuming that -
- (i) on 23.08.2025, Focus Ltd. has entered into an agreement for sale of turbo equipment with Y Ltd., an Indian company not related to Focus Ltd;
- (ii) Y Ltd. had already entered into an agreement on 21.8.2025 for the sale of the same goods to Kite Inc. (unrelated to Y Ltd.), a UK entity; and
- (iii) Focus Ltd. holds shares carrying 28% voting power in Kite Inc.
- With which of the following enterprises would a transaction with Focus Ltd. be considered an international transaction?
- (a) Hik Inc. and Kite Inc.  
(b) Max Inc. and Kite Inc.  
(c) Hik Inc., Kite Inc. and Y Ltd.  
(d) Max Inc., Hik Inc. and Kite Inc.

**Answer:**

MCO No.	Most Appropriate Answer
1.	(a)
2.	(b)
3.	(a)
4.	(b)
5.	(c)
6.	(c)

**Question 12:**

Safe Systems Ltd., an Indian company, is engaged in multiple international transactions with its AE in the USA during P.Y. 2025–26. The company is evaluating the option to opt for Safe Harbour Rules under Rule 10TD.

1. IT Enabled Services:
    - Operating Cost: ₹ 40 crores
    - Operating Revenue: ₹ 48 crores
  2. KPO Services
    - Operating Cost: ₹ 40 crores
    - Employee Cost: ₹ 20 crores
    - Operating Revenue: ₹ 50 crores
  3. Contract R&D Services (Software)
    - Operating Cost: ₹ 20 crores
    - Operating Revenue: ₹ 23 crores
  4. Intra-group Loan given to AE in Indian currency
    - Loan Amount: ₹ 60 crores
    - Credit Rating: Not available
    - Interest charged: 12% p.a.
    - MCLR of SBI: 10.25% p.a.
  5. Corporate Guarantee given to Zee Ltd. [60% Subsidiary]
    - Amount guaranteed: ₹ 120 crores
    - Guarantee commission charged: 1%
  6. Payment for low value adding services to its AE ₹ 6.24 crs.  
Total cost incurred by AE for providing such services: ₹6 crs.
- Determine whether Safe Harbour rule is applicable for each of the above transactions.

**Answer:**

**DETERMINATION OF THE APPLICABILITY OF SAFE HARBOUR**

**→ Services provided to AE:**

International transaction	Operating profit % (OP/OC)	Safe harbour requirement	Safe harbour applicable or not
IT Enabled services	8/40 = <b>20%</b>	<b>17%</b>	<b>Yes</b>
KPO services	10/50 = <b>20%</b>	<b>21%</b> As employee cost is 50% [≥ 40% < 60%]	<b>No</b>
R&D services	3/20 = <b>15%</b>	<b>24%</b>	<b>No</b>

**→ Intra group loan given to AE in Indian currency:**

Actual Interest charged **12%**

Safe harbour requirement = SBI (MCLR) + 4.25% [Credit rating–NA]  
= 10.25% + 4.25% = **14.50%**

Since actual interest charged is less than 14.50%, safe harbour rule is **not applicable**

**→ Corporate guarantee given to Zee Ltd [60% Subsidiary]**

Safe harbour rule – **not applicable**

In case of corporate guarantee, safe harbour rule is applicable only if such guarantee is given for **wholly owned** subsidiary.

**→ Payment for low value adding services to its AE:**

Actual Payment 6.24 cr.

Safe harbour requirement – **max. 10cr.**

Actual mark up = 0.24 cr./6 cr. = 4%

Safe harbour requirement – **max.5%**

Hence, safe harbour rule will be **applicable**

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