

SAFE HARBOUR

The Smart Shift from TP Uncertainty to Predictability

FOR THE IT / ITeS SECTOR

The Central Board of Direct Taxes (CBDT) has notified the final Income-tax Rules, 2026 on 20 March 2026 — a significant development in India's transfer pricing landscape.

From a Transfer Pricing perspective, the rules introduce important refinements to the Safe Harbour (SH) framework, with a particular focus on the IT / ITeS sector — aimed at enhancing clarity, certainty, and ease of compliance for eligible taxpayers.

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Is Safe Harbour Right for You?

Ask yourself these four questions —

01

Industry Fit

Are you an IT company, ITeS provider, KPO or Contract R&D IT service provider?

02

Functional & Revenue Profile

Do you operate as a low-risk entity operating under the supervision of the Principal and has operating revenue below INR 2,000 crores?

03

Audit Exposure

Are you frequently subject to Transfer Pricing (TP) audits or could be target for audits?

04

Pricing Model

Are you open to adopting a cost-plus 15.5% mark-up model going forward?

If your answer is YES — this could be a transformative opportunity for your organisation.



Safe Harbour Rules

SAFE HARBOUR (SH)

Cost plus 15.5%

Mark-up under SHR for FY 2026-27 onwards

INR 2,000 Cr

Revenue threshold (tested only in Year 1)

5 years

Block of consecutive tax years once SH is opted

3 years

CBDT may review the targeted Safe Harbour margins every 3 years, with any revisions applying only to new Safe Harbour (SH) applications filed thereafter. Accordingly, SH margin is determined in the initial year with reference to the prevailing SH margin rate and shall continue to apply, without modification, throughout the five-year Safe Harbour period.

2 months

Acceptance / rejection by the system post-filing

WHAT'S NEW

Refined SH framework for IT / ITeS

CBDT notified the final Income-tax Rules, 2026 on 20 March 2026. It introduced important refinements to the Safe Harbour (SH) framework, with a particular focus on the IT/ITeS sector.

The next slides summarise the Safe Harbour Rules for IT services Companies across 8 key parameters

STRATEGIC TAKEAWAY

"Safe Harbour- A pathway to certainty and simplicity — designed to reduce friction with strategic focus to business operations, and significant savings on time and cost."

Safe Harbour Rules for IT Services

Key Provisions · Part 1 of 2

1

Applicability

Applicable to companies providing software development services, IT-enabled services, KPO services, or contract R&D services wholly or partly relating to software development.

Not applicable where eligible transactions are **with an AE in a no-tax / low-tax country** (tax rate lower than 15%).

2

Safe Harbour Rate

Cost plus 15.5% mark-up applicable for eligible international transactions.

3

Revenue Threshold

Aggregate operating revenue threshold of INR 2,000 Crores for opting for SH. Threshold required to be tested **only** in the first year of the five consecutive tax years.

4

Duration of Option

Once exercised, the SH option is valid for a block of 5 consecutive years. The Assessee can withdraw such application within 6 months from the end of the first tax year by filing a declaration to that effect. If the assessee withdraws the option, then the SH option cannot be again exercised until the original 5-year block expires.

Safe Harbour Rules for Software Co.

Key Provisions · Part 2 of 2

5

Filing SH Application — Form 49

Form 49 can be filed on or before the due date for filing the return of income for the first year (currently 30 November).

TP Documentation and Form 48 (erstwhile Form 3CEB) are pre-requisites. Therefore, SH application can be filed only when these documents are ready to be furnished.

Must be certified by the CEO / Chairman & Managing Director, plus verification by the person authorized to sign the ITR. Requires separate disclosure of operating revenue across IT, BPO, KPO, and Contract R&D relating to IT.

6

Automated Verification & Approval

System verifies whether the assessee and transactions are eligible and whether the option is valid.

Acceptance or rejection communicated within two months from end of filing month.

Application may be rejected only with specific reasons and after providing reasonable opportunity to rectify defects.

7

Validity

Once validly exercised, the SH Rules continue for a period of five consecutive tax years.

8

Annual Compliance Requirements

For each of the four years following the first year, a statement detailing quantum of eligible transactions and profit margins achieved must be filed before filing the tax return. (format yet to be notified)

Returns must be filed for each of the five years as per SH provisions within the due date.

The Assessing Officer may refer other (non-SH) transactions to the TPO.

Compliance Obligations

WHY THIS MATTERS

Opting for Safe Harbour gives significant relief from Transfer Pricing audits — but it does NOT exempt companies from compliance obligations.

MAINTAIN

Transfer Pricing Documentation

Continued maintenance of TP documentation in line with applicable rules — even after opting for Safe Harbour.

FILE

Form 48 (erstwhile Form 3CEB)

Form 48 filing requirements must be discharged annually — this is a pre-requisite for filing the SH application (Form 49).



Immediate Next Steps — FY 2026-27

For businesses opting for Safe Harbour, here is your priority checklist —

01

Evaluate Eligibility

Evaluate eligibility against the safe harbour conditions — both 'eligible assessee' and 'eligible transaction' are prerequisites.

02

Revise Intercompany Agreements

Ensure your intercompany agreements are evaluated and revised with new terms to reflect 15.5% pricing.

03

Update Intercompany Invoices

Intercompany invoices raised should reflect the revised pricing terms and policies.

04

Assess Cost Components

Carefully assess the cost components included in the markup computation to ensure accuracy and compliance.

Key Takeaway

“

Opting for Safe Harbour Rules may be considered a **smarter, more predictable approach** to handling Transfer Pricing — designed to reduce friction, offering a pathway to certainty and simplicity with strategic focus to business operations, and yet significant savings on your time and cost.

3-YEAR BLOCK REVIEW

The Indian Income Tax Act, 2025

Provides that the Safe Harbour Rules (targeted margins) shall continue for a block of 3 years and continue to apply for subsequent block periods unless modified by CBDT.

STRATEGIC IMPORTANCE

Act at the Earliest

It becomes strategically important for businesses to evaluate and adopt SHR at the earliest opportunity — to optimise tax positions within the current framework.

How We Can Assist

We support businesses in seamlessly transitioning to the Safe Harbour regime through —

01 Value Chain Analysis

Conduct a review of the complete value chain of activities of the assessee

02 Intercompany Agreements

Evaluating terms and conditions of the intercompany agreements to reflect the revised pricing policy

03 Advice on Cost Components

Advise on cost components that should be considered for mark-up

04 Eligibility Analysis

Prepare eligibility analysis for your business which will serve as a robust backup documentation while filing the Safe Harbour application

05 End-to-End TP Support

End to End Transfer Pricing advice/ support as may be required

GET STARTED

Talk to our TP Experts

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VSTN Consultancy

Global Transfer Pricing Firm

WHO WE ARE

VSTN Consultancy is a Global Transfer Pricing firm with extensive expertise in the field of transfer pricing having its offices in India, Singapore, UAE, USA, and the KSA. VSTN Consultancy has been awarded by **International Tax Review (ITR)** as **Best Newcomer in Asia Pacific – 2024** | **Middle East Transfer Pricing Practice Leader of the Year 2025** | **Middle East Best Newcomer of the year - 2025** and is ranked as one of the **Recommended Transfer Pricing Firms**. VSTN Consultancy has been shortlisted in other awards as finalist by ITR for Tax Innovator, Tax Compliance and Reporting Firm, Transfer Pricing Leader, Transfer Pricing Rising Star in Asia Pacific – 2025 | Best Newcomer, Tax Innovator and Transfer Pricing Leader in EMEA – 2025. VSTN's senior partners have been ranked in ITR in the list of recognised Practitioners.

Our offering spans the end-to-end Transfer Pricing value chain, including design of intercompany policy, drafting of Interco agreement, ensuring effective implementation of the Transfer Pricing policy, year-end documentation and certification, Global Transfer Pricing Documentation, BEPS related compliances (including advisory, Masterfile, Country by Country report), safe harbor filing, audit defense before all forums, Pillar 2 Analysis advice and dispute prevention mechanisms such as Advance Pricing agreement.

We are structured as an inverse pyramid where leadership get involved in all client matters, enabling clients to receive the highest quality of service.

Being a specialized firm, we offer advice that is independent of an audit practice and deliver it with an uncompromising integrity.

Our expert team brings in cumulative experience of over several decades in the transfer pricing space having worked with multiple Multinational Companies across sectors/industries and have cutting edge knowledge and capabilities in handling complex TP engagements.

Why VSTN

Deep technical expertise · client-centric approach · premium TP services

01

Specialisation

Exclusive focus on transfer pricing — not a generalist practice.

02

Global Reach

Serving clients across 17+ countries with local expertise.

03

Industry Recognition

Awarded Best Newcomer APAC & Best Newcomer Middle East.

04

Licensed Databases

11+ premium TP databases for robust benchmarking.

BY THE NUMBERS

150+

Years' Experience

300+

Clients Served

17+

Countries

5

Global Offices

11+

Licensed Databases

50+

Team Members

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Our Reach

Locations served & licensed databases — premium coverage for global TP engagements

17+

COUNTRIES SERVED

- USA
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- Mexico
- UK
- Netherlands
- Belgium
- Denmark
- Switzerland
- Italy
- Singapore
- India
- Australia
- Philippines
- UAE
- KSA
- Turkey
- Zambia

11+

LICENSED DATABASES

- TP Catalyst *Moody's*
- ORBIS *Moody's*
- Loan Module *Moody's*
- IP & Royalty Data *Moody's*
- EDF-X Bond DB *Moody's*
- EDF-X Credit Risk *Moody's*
- Royalty Rates *ktMINE*
- Services CUT *ktMINE*
- Loan Module *Royalty Range*
- TP Documenter *Ryan*
- Prowess *CMIE*

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THANK YOU



Global Transfer Pricing Firm

India · Singapore · UAE · USA · KSA

We look forward to partnering with you on this engagement.

CONTACT US

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