



## Tax alert: Key highlights of draft Income Tax Rules, 2026 – Transfer Pricing

**16 February 2026**

In accordance with the announcements made by the finance minister in Budget 2025 and Budget 2026, the Central Board of Direct Taxes (CBDT) has released the draft Income-tax Rules, 2026<sup>1</sup>, along with the relevant Forms, for public consultation.

### In a nutshell



With the objective of simplifying and streamlining India's Income-tax framework, the Government has introduced the Income-tax Act, 2025, which is proposed to come into force from 1 April 2026.

To supplement the implementation of the said Act, the Government has now released the draft Income-tax Rules, 2026, along with the relevant Forms.



The draft Income-tax Rules propose to simplify the language and streamline presentation. There are now 333 rules (from 511 rules earlier) and 190 Forms (from 399 Forms earlier).

New Forms have been introduced for opting into block TP assessment and for renewal of Advance Pricing Agreements (APAs). The Accountant's Report now requires extensive additional disclosures, including details of benchmarking analysis, comparables selected, free-of-cost goods and services, cost borne by Associated Enterprise towards travel undertaken by taxpayers' employees; significantly enhancing the level of reporting requirements.



The draft Rules and Forms shall remain open for public consultation and feedback up to February 22, 2026.

<sup>1</sup> Proposed to be effective 1 April 2026

This alert provides an overview of the key changes and updates proposed in the draft Rules and Forms from a TP perspective:

#### A. Accountant's report in Form no. 48 (erstwhile Form No. 3CEB)

- The existing Accountant's Report in Form 3CEB is replaced by the newly introduced Form No. 48. The new Form enhances reporting requirements and introduces several new data-intensive disclosure requirements.
- Separate clauses for each transaction category have been removed. Instead, a unique transaction ID will be generated for every category of transaction, with the arm's length price reported at the transaction level, along with disclosure of aggregated transactions, where applicable.
- The current list of international transactions does not include transactions relating to the issue or buy-back of shares, optionally or compulsorily convertible debentures, and preference shares.
- Reporting of transactions has been aligned with the definition prescribed under Section 163(1), and accordingly, specific transactions pertaining to IT Services—including those in the nature of software development, contract R&D, KPO activities, and back-office support services — are being identified separately.
- Some of the key disclosures in proposed Form no. 48 are as follows:
  - **Economic analysis details**
    - tested party's Profit Level Indicator (PLI)
    - benchmarking results – 35<sup>th</sup> percentile, 65<sup>th</sup> percentile, median, etc.
    - economic adjustments undertaken, if any.
  - **APA related disclosures**
    - transactions covered under APA
    - agreement date and acknowledgment number
  - **Details of costs/expenses incurred by AEs utilized in the operations of the Assessee and its impact on computation of arm's length price**
    - Stock compensation costs
    - Cost of software and assets provided by Associated Enterprise - third-party and in-house
    - Training, employees seconded by the AE, and outsourcing costs
  - **Details of revenue and its impact on computation of arm's length price**
    - Foreign exchange gain
    - Subsidy, grant, cash incentive, duty drawback, waivers, concessions, reimbursements from Government/authorities/agencies in cash or kind
  - **Details of aggregation of transactions**
    - Disclosures on whether transactions are aggregated or separately benchmarked for determining arm's length price
  - **Method wise computation**
    - Detailed computation mechanism for each of the methods selected (RPM, CPM, TNMM and CUP)
  - **Intangibles related disclosures**
    - Comprehensive reporting of list of intangible property
  - **Details of Inter-company agreement(s)**

- Key terms include agreement date, royalty/interest/guarantee rates, currency, and other financial parameters to be provided.

## **B. Safe Harbour Rules**

Safe Harbour Rules allow eligible taxpayers to follow pre-defined pricing norms for eligible transactions, leading to certainty and simplified compliance. Some of the key changes reflecting a paradigm shift from the existing Safe Harbour regime are outlined below.

### **Eligible Assessee for safe harbour rules for international transactions**

- Provision of Information Technology ('IT') Services
  - Under the earlier safe harbour framework, software development, ITeS, KPO, and contract R&D services were treated as separate categories, each with distinct revenue thresholds and profit margins. The draft Rules now consolidate these into a single, unified category of IT services, while the individual definitions of these services remain.
  - Further, an operating margin of at least 15.5% on operating cost has been prescribed for this unified category of IT services.
  - In view of the unification of services, the definition and use of employee cost, earlier prescribed specifically for Knowledge Process Outsourcing (KPO) services, has been excluded in the draft Rules.
  - To enable a significantly larger base of taxpayers to opt for certainty and minimise disputes – the eligibility revenue threshold is proposed to be increased from an upper cap of INR 300 crores to INR 2,000 crores.
- Data Centre Services
  - The Safe Harbour regime has been extended to data centre services rendered by an Indian data centre company to a foreign related party, with a prescribed operating profit margin of at least 15% on operating cost.
  - Notably, no revenue threshold has been specified for such data centre services. However, it is worthwhile to note that data hosting services have been excluded from the definition of data centre services in the draft Safe Harbour Rules.

Note: The draft Rules do not propose any changes to the definitions of operating cost, operating income, and operating profit.

### **Procedural compliances**

Currently, taxpayers are required to furnish Form No. 3CEFA for the Safe Harbour regime under Rule 10TE, with no distinction in the procedural compliances for IT services and transactions other than IT services. Under the revised Safe Harbour Rules, separate procedures have now been prescribed, as outlined below.

#### **Transactions other than IT Services**

Taxpayers opting for Safe Harbour must electronically file Form No. 49 on or before the due date for filing the return of income.

- This Form is filed with the Assessing Officer (AO) who will verify whether the taxpayer and the transaction qualify as eligible for Safe Harbour and where eligibility is in doubt, the matter may be referred to the Transfer Pricing Officer (TPO).
- The TPO may seek additional information and, after granting an opportunity of being heard, may declare the Safe Harbour option invalid if conditions are not met.
- Taxpayer may appeal to the Commissioner within 15 days against an adverse TPO order; Commissioner gives the final decision.

- The AO, TPO, and Commissioner are each required to act within two months from the end of the month, in which reference is made to them; failure to do so would result in the Safe Harbour option being deemed valid.

### **Transactions pertaining to provision of IT Services**

Taxpayers are required to file Form No. 49 with the Director General of Income-tax (Systems), by 30<sup>th</sup> June immediately following the first tax year.

- Once validly exercised, the Safe Harbour option for eligible IT services remains in force for five consecutive tax years.
- The option is subject to electronic verification of the taxpayers' eligibility, transaction eligibility, and validity of the option. Acceptance or rejection is electronically communicated within two months from the end of the month in which the option is exercised. In case of rejection, the taxpayer shall be provided with reasons for the same.
- The Safe Harbour option cannot be rejected without giving the taxpayer an opportunity to rectify defects, and reasons for rejection must be communicated electronically.
- Upon acceptance, the taxpayer must file returns within due dates each year and, for the subsequent four tax years, submit an annual statement (before filing the return) detailing eligible IT services transactions, their values, and profit margins.
- The taxpayer has the option to withdraw from the Safe Harbour regime. However, once withdrawn, it cannot be re-exercised until the end of the original five-year period.
- The Safe Harbour option shall not remain in force in respect of any tax year, if the taxpayer withdraws the option of Safe Harbour by furnishing a declaration.

### **Other points for consideration**

- The requirement to file Form No. 48 (earlier Form 3CEB) and maintain TP documentation continues to apply.
- The AO can continue to make a reference to TPO in respect of international transactions other than the eligible international transactions for both the above cases.
- MAP option is not available to the taxpayer if Safe Harbour is opted.

## **C. Advance Pricing Agreements and Mutual Agreement Procedures**

### **Statutory Fees**

- The statutory fee for filing an APA application has been revised from the earlier transaction value-based slab structure to a flat fee of ₹20 lakh. The separate fee of ₹ 5 Lakh for rollback remains unchanged.

### **Timelines**

- A recommendatory timeline has been introduced to complete Unilateral APA proceedings<sup>2</sup> within one year from the end of the financial year in which the APA application is filed.
- For Unilateral APAs relating to Information Technology services<sup>3</sup>, where the agreement is not closed within

<sup>2</sup> (i) hold meetings with the applicant on such time and date as deemed fit; (ii) call for additional document or information or material from the applicant; (iii) visit the applicant's business premises; or (iv) make such inquiries as deemed fit in the circumstances of the case

<sup>3</sup> As defined under rule 87(1)(a),

(i) software development services;

(ii) information technology enabled services;

(iii) knowledge process outsourcing services;

two years from the end of the quarter in which the application was filed, the proceedings for such application shall be treated as closed. However, the taxpayer has been given an option to request an extension of the timeline for period of 6 months.

- The Board<sup>4</sup> has been empowered to direct closure of an APA application that remains pending for more than three years from the end of the financial year of filing, where the delay is attributable to the applicant's non-submission of information or documents, or non-compliance with directions relating to meetings, site visits, or responses to queries.
- The timeline for a taxpayer to accept a Mutual Agreement (MA) in case of Bilateral/Multilateral APA or a MAP resolution has been revised. The earlier requirement for acceptance within 30 days from the date of receipt has been updated to 'one month from the end of the month' in which communication is received.

### **Separate form for filing a Renewal APA Application**

- In the existing Income-tax rules<sup>5</sup>, there was no separate form prescribed for filing a renewal APA application. The draft rules have now introduced Form No. 54 for filing renewal APA applications.

### **Withdrawal of Application**

- The existing Form No. 3CEE for withdrawal of an APA application has been abolished. Under the proposed rules, the taxpayer may file an intimation before the concerned authority<sup>6</sup> to withdraw the APA application.

### **Overview of the Forms**

- The Forms pertaining to APA and MAP have been revised to enable more structured and streamlined collation of data. While the core content of the Forms has been kept minimal, majority of the required information is now required to be furnished through detailed annexures. Some new requirements such as functions performed, employee headcount for each business location, details of AE(s) in low-tax/no-tax jurisdictions have been introduced across the Forms.

## **D. Block Assessment**

Taxpayers have been provided with an option to apply the Arm's Length Price (ALP) for an international transaction or specified domestic transaction determined by the tax authorities in a single proceeding to a block of up to three years. This provision allows taxpayer, in specified circumstances, to extend the ALP determination beyond the year for which a reference has been made to the TPO, thereby reducing repetitive audits and enhancing certainty.

- This option must be exercised by filing Form No. 46 (for two consecutive years i.e. the second and third tax year) after the end of the third tax year and on or before 30 June succeeding the third tax year. The said Form must also be accompanied by a certificate from an accountant (in Form No. 47).
- The option is available only where the nature of transactions, pricing method, Functions Assets and Risk ('FAR') profile, business activities, and contractual terms remain materially unchanged across the three years.
- The TPO is required to examine and confirm the validity of the option within one month from the end of the month in which such option is exercised by the Assessee.

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*(iv) contract research and development services wholly or partly relating to software development; with insignificant risk, to a non-resident associated enterprise (hereinafter referred to as foreign principal).*

<sup>4</sup> Central Board of Direct Taxes

<sup>5</sup> Income-tax Rules, 1962

<sup>6</sup> For Unilateral APA - Principal Chief Commissioner of Income Tax (International Taxation)

For Bilateral/Multilateral APA – The Competent Authority of India

- Where the TPO declares the option to be invalid, the Assessee may file objections before the Commissioner within 15 days of receipt of the order.
- The multi-year ALP option may be declared invalid or cancelled if the information furnished is inaccurate or not bona fide, the accountant's certificate is incorrect, or the prescribed conditions are not met. In such cases, the TPO will proceed to determine the ALP only for the first tax year for which the reference was originally made.
- The said option is not available where the case of the taxpayer is under search proceedings or if the Associated Enterprise is in a notified jurisdiction.

#### **Revisions/ corrections to the Country-by-Country Report**

- In relation to the revision/corrections of Country-by-Country report ('CbCR') in form No. 59 (erstwhile Form No. 3CEAD), the proposed rule requires formal intimation to be furnished to the Director General of Income-tax (Systems).

#### **Conclusion**

The draft income-tax Rules, 2026 mark the first step towards operationalization of the simplified Income-tax Act, 2025. The revamped safe harbour regime and time bound processing of APAs will have significant impact on the decision of the taxpayer on selection of the best course of action to attain certainty. However, the true impact will depend on the implementation of the rules and administrative positions adopted by the tax authorities. Taxpayers should evaluate the practical implications of the proposed changes on their compliance, audit and litigation.



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