INDIA TAX | TRANSFER PRICING · UNION BUDGET 2026 · SAFE HARBOUR · DATA CENTRES

India transfer pricing: 15.5% safe harbour for IT services and a data centre tax holiday

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Budget 2026-27 set a common 15.5% safe harbour margin for IT services, raised eligibility to INR 2,000 crore and gave cloud providers using Indian data centres a tax holiday to 2047.

Country reference

- Country: India (Wave 1 expansion country)
- Authorities: Ministry of Finance; Income Tax Department; Central Board of Direct Taxes (CBDT)
- Topic: Transfer pricing safe harbour and data centre incentives
- Key date: Announced 1 February 2026
- Law: Finance Act, 2026; Income-tax Act, 2025 and Rules

What the Budget announced

- IT services safe harbour: a common margin of 15.5% for IT and related services, with the eligibility threshold raised from INR 300 crore to INR 2,000 crore.
- Advance pricing agreements: unilateral APAs for IT services to be fast-tracked, with a target of two years.
- Data centres: a tax holiday until 2047 for cloud service providers serving customers through data centres in India, and a 15% cost-plus safe harbour for related-party data centre services.
- Bonded warehousing: a 2% profit margin safe harbour for non-residents storing components in bonded warehouses.

Why it matters

Transfer pricing audits on captive IT and back-office centres are among the most common tax disputes in India. A single margin at a higher threshold lets many more global capability centres opt for certainty instead of annual benchmarking and litigation.

Who benefits

- Gulf and global groups with Indian shared service, software or capability centres.
- Hyperscalers and cloud providers building or using Indian data centre capacity.
- Manufacturers keeping component stock in Indian bonded warehouses.

What to do now

- Compare the current mark-up of each Indian service entity with 15.5%.
- Check the detailed safe harbour rules and the election process in the Income-tax Rules, 2026.
- For larger centres, weigh the safe harbour against a unilateral or bilateral APA.

- Align intercompany agreements and invoicing with the chosen method.

Our take

For many groups the safe harbour now costs little more than the margin they already report, and it buys peace from audits. Model it for the current year before the return is filed.

Sources

- PIB: Highlights of Union Budget 2026-27
- Ministry of Finance: Budget speech 2026-27

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