UNION BUDGET 2025-26

Strengthening the Transfer Pricing Assessment Framework with Block Assessments

The Finance Minister, in her recent budget speech of 1 February 2025, briefly underlined Taxation Reforms as one of key reforms to realize the vision of 'Viksit Bharat' (Advanced India). She touched upon the topic of ease of doing business and introduced measures to streamline the process of transfer pricing assessment. The Finance Bill 2025 has proposed a multi-year framework to determine Arm's Length Price (ALP) aimed at reducing excessive compliance burdens and eliminating redundant assessments where there is uniformity in transactions that remain consistent over time.

A. Existing Framework of Transfer Pricing: Currently, transfer pricing regulations in India are governed under Sections 92 to 92F of the Income-tax Act, 1961, with an objective to prevent profit shifting and ensure that transactions between associated enterprise are conducted at arm's length in alignment with global tax principles. Under the existing system, the arm's length price is determined and assessed one year at a time, even when transactions are of similar nature year on year, which leads to annual compliance and administrative burdens at both taxpayer and tax administration side as well as extended litigation annually. The key issues taxpayers face under the current system are:

- Substantial time is spent in re-evaluating similar transactions that have already been assessed.
- Inconsistent ALP determinations year on year burden businesses and the tax administration.
- Unpredictable litigation scenarios affect their ability to plan and allocate resources.

B. Changes Proposed:

The budget proposes to introduce the 'block period of three years' as an alternative to the yearly examination for transfer pricing assessments. The Memorandum to the Finance Bill, 2025 noted that often there are similar transactions across various years with same facts such as:

- Same associated enterprises with whom such transaction is done,
- Same location of associated enterprises,
- Same proportionate quantum of transaction,
- Same arm's length analysis.

This has created compliance burden on the taxpayers as well as added administrative burden on the tax authorities. In view of the same, in such situations, it is proposed to carry out transfer pricing assessments in a block of 3 years.

Highlights of the changes proposed

- Taxpayer may opt for the block period
- TPO to validate the option so exercised - for similar transactions within one month
- Arm's Length Price determined in initial year by TPO to be applied to subsequent two years
- If TPO validates the option, no reference to TPO for similar transactions in next two years - if any reference already made shall be invalid
- AO to re-compute total income basis ALP determined by the TPO/DRP for block of assessment years within 3 months
- This would not be applicable for any proceedings falling under search and seizure cases
- Rules and guidelines for implementation shall be separately prescribed.

Hence, taxpayers now would have an option to get the arm's length price as determined by tax authorities for any single year, applied to such similar transaction for two consecutive subsequent years as well with an intent to reduce multiple tax proceedings for similar transactions.

C. Issues for Consideration:

1. Effective Period

This would be effective from 1 April 2026. Considering the Memorandum to the Finance Bill, 2025 has added that these amendments would apply in relation to assessment years 2026-27, one needs to see whether this means that it would apply to all proceedings that are on-going or selected after 1 April 2025 (AY 2026-27) or for the assessment pertaining to AY 26-27 onwards. Given that this section deals with assessment process, it appears that it would apply for assessments done from 1 April 2025. However, this aspect needs clarity.

2. Onus is on the taxpayer to exercise such option

The taxpayer would be required to proactively opt for the multi-year determination of arm's length price framework. While the rules are yet to be prescribed, considering the inter-play of key timelines the taxpayers would need to taxpayer the need for opting for multi-year assessment.

2.1When this option would be required to be exercised?

Few possibilities that can be contemplated are:

a) At the time of filing of Form 3CEB or filing or Income Tax Return for the year 1; or

b) At the time of receiving the first notice from the AO / TPO[1] for year 1; or

c) During the course of TP proceedings or closer towards the end of TP assessment of year 1; or

d) after the Order from the TPO is received.

While the law provides that form, manner and timelines for exercising such option would be prescribed later; the success of this provisions would depend on the time at which the option needs to be exercised by the taxpayer. If its option (a) or (b) above, the scheme is unlikely to see any success. From the reading of Memorandum, it appears that option (c) seems most likely scenario.

2.2 Whether the taxpayer can withdraw the exercised option at a later stage?

Considering the nature of these amendments, there is high probability that a withdrawal feature would not be available and currently the law does not provide anything to this effect. Hence the taxpayers would need to be mindful before deciding to opt it.

2.3 Whether the option to be exercised is for a fixed three year period or can the taxpayer opt for one year, forming a two-year block?

This could be for various reasons and depending on the timeline to exercise such option there could be a scenario where Year 3 tax return would not have been filed and therefore the taxpayer doesn't have complete information to make a conscious decision.

2.4 Illustration of interplay of timelines

Key Timeline	FY 25-26 AY 26-27	FY 26-27 AY 27-28	FY 27-28 AY 28-29
Financial Year ended	31 March 2026	31 March 27	31 March 28
Due Date for Form 3CEB	30 October2026	30 October 2027	30 October 28
Due Date of Return of Income	30 November 206	30 November 27	30 November 2028
Due date for Selection of Case for Normal Scrutiny	30 June 2027	30 June 2028	30 June 2029
Due Date for AO Order[2] (No TP Reference) / Date for Reference to TPO	31 March 2028	31 March 2029	31 March 2030
Due Date for TPO Order[3]	31 January 2029	31 January 2030	31 January 2031
Due Date for Draft AO Order	31 March 2029	31 March 2030	31 March 2031

[1] *Assessing Officer / Transfer Pricing Officer*

[2] *Time limit for completion of assessment, reassessment and recomputation.*

153. (1) No order of assessment shall be made under Section 143 or Section 144 at any time after the expiry of twenty-one months from the end of the assessment year in which the income was first assessable:

[34][Provided also that in respect of an order of assessment relating to the assessment year commencing on or after 1April 2022, the provisions of this sub-section shall have effect, as if for the words "21 months", the words "12months" had been substituted.]

[3] *31 January taken for ease of computation, while it is before 60 days of the Due Date to pass Draft AO Order*

- For Year 1 (say for FY 25-26), given that the TPO is required to pass his order by 31 January 2029, based on the reading of the Memorandum which provides that the option needs to be exercised during the course of TP assessment proceeding, a view can be taken that the taxpayer may need to decide during the period April 2028 - December 2028.
- For Year 2 (i.e. FY 26-27) as the timeline to refer the matter by AO to TPO is 31 March 2028, the taxpayer would be aware if any reference is made by the time they exercise the option and hence if no reference is made, the taxpayer can take a call whether to opt for or not for the block assessment.
- For Year 3 (i.e. FY 27-28) as the timeline for selection of scrutiny is 30 June 2029, the taxpayer would not be aware if the case is selected or not (and if the case is referred to the TPO or not) and hence there would be uncertainty, and a decision would have to be made if this year should be covered. Further, the due date for the taxpayer to file its Form 3CEB and maintain contemporaneous documentation is 31 October 2028, this leaves less time for the taxpayer to review its multi-year facts and decide on whether to opt or not (given the option in Year 1 needs to be exercised latest by 31 December 2028).

2.5 This opt-in feature provides taxpayers with multi-year certainty and control, but it may introduce uncertainty if the outcome of the first-year assessment is not yet known when the decision must be made.

3. The TPO has the final say on the validity: The TPO would be required to validate and approve the taxpayers request within one month.

3.1 What would be the review mechanism to establish the validity of the option exercised?

It would be important for taxpayers to understand what the tax authorities would require to review in the one month period before they can declare the option to be valid. It may be anticipated that the TPO conducts a multi-year analysis of the covered transactions in terms of their similarity and comparability. The commercial factors, economic and market conditions, pricing calculations etc would be important. This would put the burden of establishing the validity of the option back on the taxpayer and to furnish relevant information to the tax authorities and that too in the short span to enable the tax authorities to decide. In essence a large part of the information, especially the TP documentation and economic analysis would have to be submitted to the tax authorities in the month period.

3.2 Can the taxpayer appeal against the decision of the tax authorities (i.e. for the invalidity of the option exercised)?

Currently there is no mechanism for the taxpayer to appeal against the option exercised. Even in case of the safe harbour there is an appeal mechanism available which may be provided for here as well.

4. Similarity of Transactions:

4.1 What constitutes similarity of transactions?

The Memorandum to the Finance Bill, 2025 while explaining the rationale for introducing this provisions notes that often there are similar transactions across various years with same facts such as:

- Same associated enterprises with whom such transaction is done,
- Same location of associated enterprises,
- Same proportionate quantum of transaction,
- Same arm's length analysis.

The definition of similarity of transactions would have to be very clearly established, as there could be several scenarios where the transactions could be similar but there could be changes on account of

Transaction	Potential Changes
Purchase/Sale of Raw Materials/Goods	• Change (increase/decrease) in quantum/value of the transactions • Change in currency – e.g. shift from USD to EUR • Change in pricing model – from fixed to variable where the effective price varies year on year due to market forces such as import price, duties etc. • Change in payment terms/actual realisation.
Purchase/Sale/Transfer/Lease/Use of Intangible Property	• Change in exploitation/business model – from internal use to external licensing • Change in geographic expansion of usage – leading to an expansion in the scope and nature of its usage.
Providing / Availing Services	• Change in pricing model – from Lump-Sum to Cost Plus or Hourly Rate etc. variable where the effective value varies year on year • Change (increase/decrease) in quantum/value of the transactions • Change in actual realisation year on year • Further in the case of availing services in Year 1, whether the documentation for Year 1 (relating to evidence for proof of service and need and benefits etc.) can be said to be valid for Year 2 and Year 3 as well.
Lending/Borrowing	• Change (increase/decrease) in value of loan • Change in type of funding (secured/unsecured; short-term/long-term, collaterals, • Change in credit rating of borrowers • Change in cost of funding, borrowing source, • Change in few Loan terms (repayment terms, fixed to variable rate of interest) • Change in adoption of Base Rate (LIBOR to SOFR, 3m SOFR to 6m SOFR etc.) • Change in Purpose of Loan.
Guarantee	• Increase in draw down of the loan • Change in nature and scope that affect the risk of the borrower and the guarantor • Change in Amount covered • Change in the borrower's risk profile.
Other Potential Changes	• Change in classification of transactions in Form No. 3CEB; • Change in choice of most appropriate method & profit level indictor; • Change in the actual PLI reported year on year; • Addendum to the terms of contracts (credit terms, scope, pricing etc.).

Hence consistency in various aspects in the block period would be necessary to demonstrate. This would substantially limit the gamut of transactions that actually would fall within the ambit of this scheme.

4.2 Whether the option can be exercised in Year 1 for few transactions leaving out other transactions in Year 1 itself?

Similar to the safe harbour provisions, taxpayers may want to understand if they have multiple transactions, can they choose which transactions they can opt for under this scheme or is it mandatory for all the transactions under transfer pricing assessment.

4.3 How would the arm's length price so determined in Year 1 be computed for Year 2 and 3?

The basis of determining the arm's length price – in terms of supporting documents, functional analysis, economic analysis, most appropriate method, choice of database, choice of comparables, stand for consideration of operating or non-operating for contentious items of expense/income etc. adopted by the TPO in year 1 would be essentially adopted in Year 2 and 3 itself.

While there is potential for reduced administrative burden, the extent this actually benefits many taxpayers would depend on the forthcoming clarifications.

5. Limited Time Frame for TPO: Given that the tax authorities would have only one month time to decide on the validity of the option, there are concerns how much the tax authorities would review the similarity of the transaction in this short span. More importantly the taxpayer will have a time frame of only one month to furnish the relevant documents in support of the validity of its option.

   The burden of meeting these deadlines might create challenges for both taxpayers and tax authorities.

6. Clarity on subsequent year reference: Once the TPO declares that the option exercised by the taxpayer is valid, no reference for computation of arm's length price 'in relation to such transaction' shall be made. The reference for computation of arm's length price is in relation to the particular transaction considered in the base previous year only. Hence, in the subsequent years if the taxpayer has same transactions as such there can be no reference to TPO for those transactions. Even if there is any TP reference (either before the order is passed by the TPO or even after) for such subsequent years the same would be deemed to be invalid in lieu of the Order issued by the TPO validating the option exercised by the taxpayer for multi-year assessment.

6.1 In the event the taxpayer has entered into different transactions in the subsequent years as such, can a reference to the TPO still be made for determination of arm's length price?

There is no exclusion currently for making any reference for non-similar transactions. The block assessment system will apply only to similar transactions in subsequent years. Any new or significantly altered transactions may still need to go through the standard, annual TP process. While this simplifies the process for transactions that remain consistent, it limits the benefits of the block assessment system for businesses that engage in dynamic or evolving intercompany transactions. The need for annual assessments may continue for businesses with a more complex structure.

6.2 The Order Issued by the TPO u/s 92CA(3) would be applicable for Year 1 only, however for Year 2 and 3 as such separate orders per year u/s 92CA(4A) may be envisaged

The TPO is empowered to issue an order u/s 92CA(3) only if a reference is made, hence under the scheme in case in Year 2 and 3 if there is no reference at all then as such an order u/s 92CA(3) may not be valid and hence the scheme has introduced Section 92CA(4A) to empower the TPO to pass such order for Year 2 and 3 for similar transactions only. The appeal process for such orders u/s 92CA(3) as well as 92CA(4A) also would need more clarity in light of existing provisions.

7. Re-computation of Income by AO: A new sub-section (21) is proposed to be inserted in Section 155, which is enforced when the ALP is determined for Year 1 and the TPO has declared an option exercised by the taxpayer as valid option. The AO is expected to complete the re-computation for Year 2 and Year 3 in conformity with the ALP as determined by the TPO for Year 1 within three months from the end of the month in which the assessment is completed for the taxpayer for Year 1. The re-computation will also take into account any directions issued under Section 144C(5) (i.e., related to Dispute Resolution Panel (DRP) directions) for Year 1.

   In the event the order of assessment or any intimation or deemed intimation for the two consecutive years is not made within the three-month period (as mentioned above), the AO would be expected to complete the re-computation within three months from the end of the month in which such order of assessment is made.

7.1 Interplay of Timelines for Assessing Officer

Key Timeline	FY 25-26	FY 26-27	FY 27-28
Due Date for TPO Order u/s 92 CA(3)	31 January 2029		
Due Date for TPO Order u/s 92 CA (4A)		Date not provided	Date not Provided
Due Date for Draft AO Order u/s 144C	31 March 29	Draft order not stated	Draft order not stated
*If no appeal by taxpayer before DRP**			
Due Date for AO to pass Final AO Order u/s 143 (3)	31 May 2029		
Due Date for AO to pass Final AO Order u/s 155 (21)		31 August 2029	31 August 29
If appeal by taxpayer before DRP			
Due Date for application before DRP	30 April 2029		
Due Date for DRP to pass Directions	31 December 2029		
Due Date for AO to Final AO Order in lieu of DRP Directions (if received in Dec-2029)	31 January 2030		
Due Date for AO to pass Final AO Order u/s 155 (21)		30 April 2030	30 April 2030

(the above is currently tabulated considering normal assessment for consecutive two years may not be there)

**the taxpayer may appeal before the CIT(A), however the relevant repercussions of the scheme on the Final AO order for subsequent years would be important to be understood.*

7.2 The current drafting of Section 155(21) does not have provisions of draft assessment order, leaving scope for ambiguity and confusion and may lead to multiple proceedings for the same tax year.

7.3 Can the orders passed under proposed Section155(21) for consecutive 2 years be appealable before DRP?

Based on the current wordings of the introduced provisions, for the consecutive 2 years, the taxpayer does not seem to have the option to opt for DRP u/s 144C as the TP order is passed u/s 92CA(4A) and not under 92CA(3). However, pursuant to the order passed under the proposed Section 155 (21) for the subsequent years, the taxpayer may have the following remedial measures

- file rectification u/s 154;
- file appeal before CIT(A) u/s 246A

This provision adds an element of certainty for taxpayers, as it ensures that once the ALP is determined for one year, the subsequent two years' income will be recomputed in line with that ALP. However, this process also imposes time constraints on the Assessing Officer to ensure that the amended assessments are carried out promptly.

8. Interplay with Advance Pricing Agreements (APA)

In case a taxpayer enters into the block assessment scheme, there could be uncertainty regarding the validity of the APA’s depending on the overlapping period with the block assessment. This could complicate the implementation of long-term APAs, where companies typically want to secure certainty for a range of years (often 3-5 years).

The tax authorities may challenge the agreed terms or methodologies in an APA if they feel that the tax positions taken during the block assessment period contradict the agreed terms of the APA? (especially where pricing arrangements for the years in question have already been agreed upon and the comprehensive examination of multiple years of transactions under the block assessment).

Hence the incentive to go for APA may get hampered.

D. Global adoption of Block Assessment:

While block assessments may have the potential to reduce compliance burdens, their widespread adoption is limited. Countries instead seem to be opting for frameworks that involve negotiation, active engagement, and periodic review of transfer pricing methodologies. India is one of the few countries to propose this system for simplification of compliance. Most countries globally, including the U.S., Canada, and European nations, use advance pricing agreements (APAs), which provide multi-year certainty but require proactive involvement and do not automatically extend ALP year-to-year.

Germany, is one example where even though transfer pricing audits are carried out on an annual basis, if a taxpayer's intercompany transactions are subject to ongoing scrutiny, the tax authorities may examine multiple years of transfer pricing documentation in order to determine the consistency of pricing methodologies and trend of pricing or intercompany transactions over multiple years. If there is evidence of a pattern of transfer pricing adjustments in subsequent years, the authorities may expand the scope of the audit to cover multiple years.

Unlike many other jurisdictions where tax authorities automatically test transactions over multiple years, India offers taxpayers the flexibility and control to opt for block assessments, allowing them to choose multi-year ALP determination based on their specific circumstances.

E. Additional Measures to Ease Compliance: While the Government's intent is to benefit taxpayers and reduce the administrative burden on TPOs, the following aspects can be considered for compliance simplification.

- Higher thresholds for mandatory documentation,
- Rationalize the need for annual full-fledged documentation,
- Option for simplified documentation,
- Fresh benchmarking could be restricted every three year, with financial updates applied for interim two years, reducing repetitive exercises,
- The taxpayer's margin analysis could be evaluated over a three-year period using a weighted average approach, similar to the method used for computing comparable companies' margins.

These measures would further enhance the effectiveness in easing compliance burdens for taxpayers.

Key Takeaways

The introduction of block assessments, covering a three-year period, is a key reform in the Indian transfer pricing regime, providing taxpayers with an elective alternative to annual assessments. This aim's to reduce administrative burden that businesses face during litigation when engaging in similar intercompany transactions year over year and improve predictability for taxpayers. However, the success of this framework will largely depend on the detailed provisions, administrative implementation, and effective clarifications. Businesses will need to carefully evaluate the potential benefits and challenges of opting into this new system and prepare for its implementation once the detailed rules are finalized. In the current aggressive TP audit environment, this could be challenging, as taxpayers may hesitate to exercise this option due to uncertainty regarding the outcome of the first year's assessment.

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