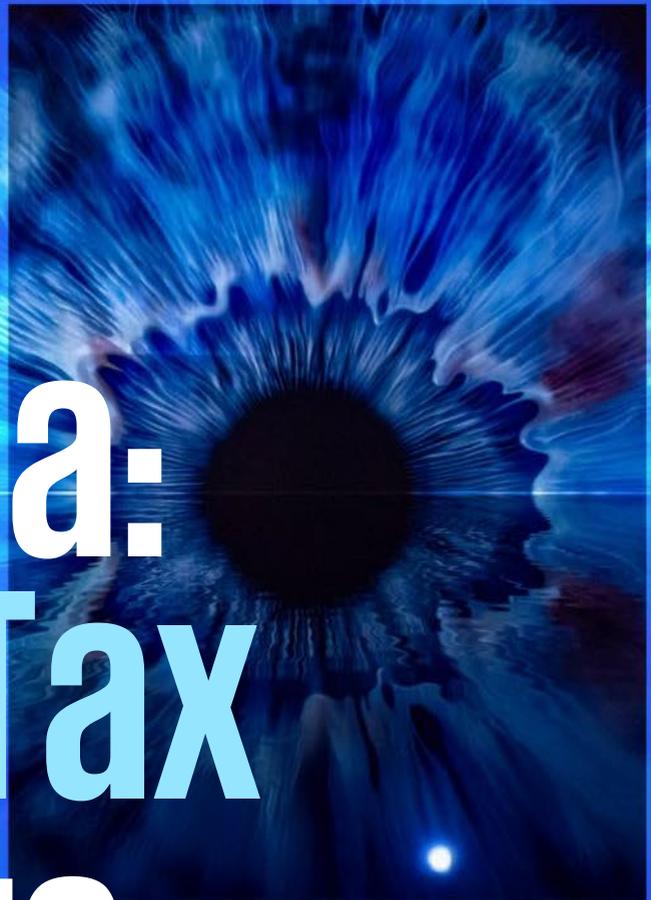




# GCCs in India: Key Tax Insights.



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September 2025

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# Foreword

India's tax and regulatory environment is dynamic and constantly evolving. In this context, Global Capability Centers (GCCs) operating in India must strategically align their operations with the country's legal and tax frameworks to remain compliant and competitive.

India's GCC ecosystem is undergoing a dynamic transformation - from traditional back-office operations to becoming strategic hubs for innovation, artificial intelligence, R&D and talent development. As GCCs scale in size and complexity, staying ahead of the evolving tax and regulatory landscape is no longer optional - it's essential.

Strategic decisions around entity structuring, funding and location selection must be made with a clear view of long-term sustainability and operational efficiency. With increasing tax regulatory scrutiny and emerging global frameworks like BEPS Pillar Two, recent US tariff measures etc., GCCs must adopt proactive governance models and leverage technology to ensure compliance, manage risks and unlock value.

This thought leadership piece attempts to unpack these key tax and regulatory considerations that enable strategic decision-making across the lifecycle of a GCC in India.



**Sunil Badala**

National Head of Tax, KPMG in India

India continues to emerge as a strategic destination for GCCs, offering a compelling blend of talent, innovation and cost efficiency. As multinational enterprises recalibrate their global footprints, the role of GCCs has evolved from being cost centers to becoming hubs of transformation, innovation and value creation. A key factor fueling this momentum is India's vast and highly skilled talent pool, which continues to attract companies seeking to establish and scale their strategic operations in the region. However, with this evolution comes complexity - particularly in the realm of taxation.

Navigating India's dynamic tax landscape requires not only technical expertise but also strategic foresight. From transfer pricing and indirect tax implications to regulatory compliance and incentives, the tax considerations for GCCs are multifaceted and deeply consequential. These tax challenges are not limited to foreign companies entering the Indian market but also impact existing entities looking to scale their operations. A thoughtful and well-informed approach to structuring is essential to ensure regulatory alignment and long-term success.

This publication is a timely and insightful contribution to the discourse. It brings together perspectives from seasoned professionals, offering clarity on key tax issues and practical guidance for decision-makers. Whether you are setting up a new GCC or optimising an existing one, the insights shared here are expected to help you make informed, future-ready choices.



**Ajay Mehra**

Partner and Head, Tax Markets and Strategy, KPMG in India

As global organisations continue to deal with global headwinds, riding the tailwinds presented through the new emerging technologies, we have witnessed a tremendous potential and uptake in the GCC model. An increasing number of Global organisations continue to establish their GCCs in India.

The functional scope of these GCCs span across the entire business value chain, with GCCs taking greater end to end process accountability and driving innovation and transformation from India. Deep capabilities are being established, which present the opportunity to establish global centers of excellence within the GCC.

Across the GCC life cycle, be it at the initial build phase when one is determining the scope, structure, outcomes and roles, or at a mature phase, when one revisits either of these elements - there are several aspects from a tax and regulatory perspective that warrant consideration. It is imperative that one understands, appreciates and plans accordingly, given the Indian tax and regulatory requirements and their implications.

We thought it timely to pull together this paper which highlights these considerations which are critical, depending on which stage in the GCC life cycle one might be.

We of course look forward to your feedback and contributions as we continue to refine and evolve this publication.



## Shalini Pillay

Partner and Head – Global Capability Centers, KPMG in India

Multinational corporations (MNCs) have rushed into India to establish GCCs because it has a vast annual supply of STEM (Science Technology Engineering and Mathematics) graduates. GCCs is a labor-intensive business. Rich countries cannot generate all the STEM graduates needed for a world that is increasingly tech based. Like BPO, early GCCs in India were set up to reduce costs for companies but the focus has shifted to value creation and innovation over the past few years. GCCs in India are now working on future aviation engines, GenAI, machine learning, life sciences and healthcare. GCCs are no longer confined to Bengaluru, Hyderabad, Delhi NCR, Mumbai or Chennai. New centers are coming up in smaller cities like Jaipur, Chandigarh, Mysuru and Kochi.

This publication attempts to cover, in a detailed manner, both direct and indirect taxation aspects relevant for GCCs, right from the pre-set up phase to implementation phase and then to expansion phase. Coverage of typical audit issues could be of immense benefit to the readers for mitigating the tax risks.



## Rajat Bansal

Senior Advisor, KPMG in India

**1.**

# **GCCs in India - A panoramic business view**

# 1. GCCs in India – A panoramic business view

GCCs have traditionally been set up as offshore units by MNCs to provide a wide range of services to their parent organisation/affiliates.

Initially, GCCs were set up as cost saving outsourcing hubs, however today, GCCs undertake complex, high value adding functions directly contributing to revenue generation and business growth and have developed as strategic hubs for innovation, analytics and operations for the group as a whole.

India has emerged as a preferred location for GCCs, not only due to traditional cost arbitrage benefits, but also due to the presence of a robust digital economy, a skilled talent pool and a stable government focused on ensuring ease of doing business.

Total number of GCCs have risen to over 1,700 in FY 2024, with over 2,975 centers. As of FY 2024, Indian GCCs are estimated to have earned USD64.6 billion in revenue and have employed over 1.9 million people. GCC market size is expected to reach around USD100 bn by 2030 and the headcount expected to cross 2.5 million.<sup>1</sup>

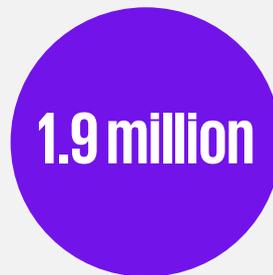
## India's GCC Statistics



GCC market size  
FY 2024



Total no. of GCCs  
in India FY 2024



Total headcount  
FY 2024



Projected to scale  
by 2030



60%

Fortune 500  
companies have  
set up their GCCs  
in India



364,000

New jobs GCCs will  
create within the year  
2025 (Projections)



6.3%

CAGR of total  
installed GCC  
talent (FY 19-24)

1. India GCC Landscape Report – The 5 year Journey, NASSCOM, September 2024

India has witnessed 400+ new GCCs and 1100+ new centers established in last 5 years:

Number of GCCs in India (FY19 - FY 24)



Number of GCC Centers in India (FY19 - FY 24)



GCC distribution across India FY 2024

Delhi/NCR	Pune	Mumbai	Hyderabad	Bengaluru	Chennai
465+	360+	365+	355+	875+	305+

<p><b>Top 6 Cities</b>                      Number of GCCs: 1680+                      GCC Workforce: 1.17 million+</p>	<p><b>Total Number of Secondary Cities: 17</b>                      Number of GCCs: 90+                      GCC Workforce: 60,000+</p>
---	---

### India - A preferred GCC destination

While GCCs have been set up in other countries, i.e. China, Philippines, Eastern Europe etc., India continues to be a preferred destination due to the following :

#### Factors due to which India is a preferred GCC destination

##### Diversified talent pool

India's diverse talent pool gives GCCs a strong edge, attracting skilled professionals from tech engineers to business strategists and functional experts who drive innovation and value across the business spectrum

##### Emerging technology

India is rapidly adopting advanced technologies like engineering R&D and artificial intelligence to drive innovation and meet global business needs. The government actively supports this growth through initiatives such as the India AI stack, the national programme on AI, financial inclusion missions, startup India and MeitY's 2047 tech roadmap

##### Cost Efficiency

The operating costs in India, including labor, infrastructure and real estate, are significantly lower compared to developed countries

##### Government support

The Government of India supports GCC growth through policies like 100 per cent foreign direct investment in key sectors and tailored state-level incentives. These combined efforts aim to make India a preferred destination for global corporations setting up GCCs.

GCCs are fundamentally altering the technology landscape. Leading organisations across industries—including aerospace, defense, semiconductors, automotive, financial services, healthcare, retail and telecommunications—are centralising their technology ecosystems in India. This shift is particularly pronounced in high-tech sectors, where companies are accelerating their engineering and R&D efforts to develop next-generation platforms, products and solutions. Over the last five years, the setup rate of engineering research and development GCCs has grown 1.3 times faster than the overall GCC setup, highlighting a continued shift towards high-value-added work.<sup>2</sup>

India has established itself as a prominent player in leveraging its vast talent pool, which accounts for 28 per cent of the global Science, Technology, Engineering and Mathematics (STEM) workforce and 23 per cent of the global software engineering talent<sup>2</sup>. Over the past decade, the GCC ecosystem in India has matured significantly, advancing into high-end engineering roles such as product managers and architects, with 35 per cent of transformation hubs exhibiting a strong presence of architects<sup>2</sup>. Furthermore, global roles within GCCs are expanding rapidly, expected to grow from currently 6,500 to over 30,000 by 2030, supported by robust training programs to develop leadership<sup>2</sup>. The adoption of AI and ML and the establishment of AI centers of excellence further enhance the GCC landscape by tapping into India's strong middle-management talent.<sup>2</sup>

### Expansion to Tier II cities

For years, GCCs thrived in India's metro cities like Bengaluru, Hyderabad, Chennai, Mumbai, Pune and Delhi NCR. Tier II cities like Jaipur, Chandigarh, Coimbatore, Vadodara, Gujarat International Finance Tec-City ('GIFT City'), Indore and Nagpur, driven by a skilled talent pool and infrastructure support are emerging as key locations in terms of GCC development. The Indian Government is also actively promoting setting up GCCs in Tier II cities, in a bid to reduce congestion, etc. in metros.

### Union Budget 2025

Announced the establishment of a national framework aimed at [driving the growth of GCCs in tier-II cities](#). This framework will suggest measures for enhancing availability of talent and infrastructure, building- byelaw reforms and mechanisms for collaboration with industry

GCCs in Tier-2 cities can offer up to 30 per cent lower operational costs. This shift is already being observed due to both high attrition and the high operational costs in Tier-1 cities.<sup>3</sup>

Tier-2 cities like Coimbatore, Bhubaneswar and Jaipur have also witnessed the rise of SEZs with tax incentives, talent availability, relaxed regulations and low operational costs which further support Indian GCCs.

By focusing on Tier-2 cities, the Government seeks to create new opportunities for economic development, employment generation and technological advancement in regions that have previously been underrepresented in the global digital landscape.

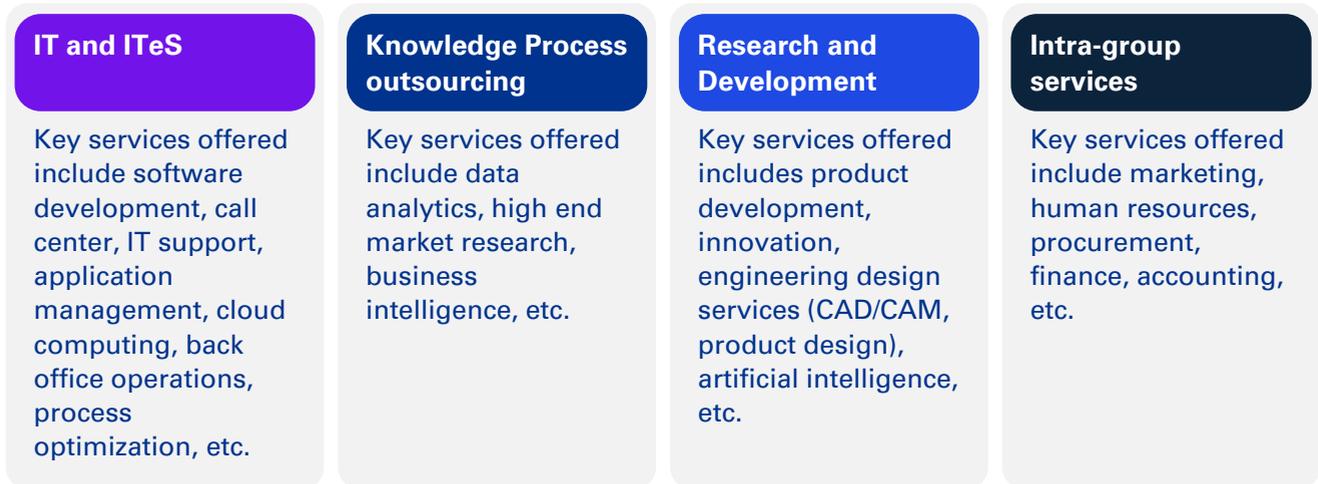
2. Economic Survey 2024-25, Government of India, January 2025

3. The Rise of Global Capability Centers in India's Tier-2 Cities, NASSCOM, October 2024

## Core functions of GCC

GCCs serve a wide range of industries such as Technology – Information Technology/Information Technology Enabled Services, finance, healthcare, manufacturing, media and entertainment, consumer goods etc. Some of the typical GCCs based on their functions are as under:

### Typical functions of a GCC



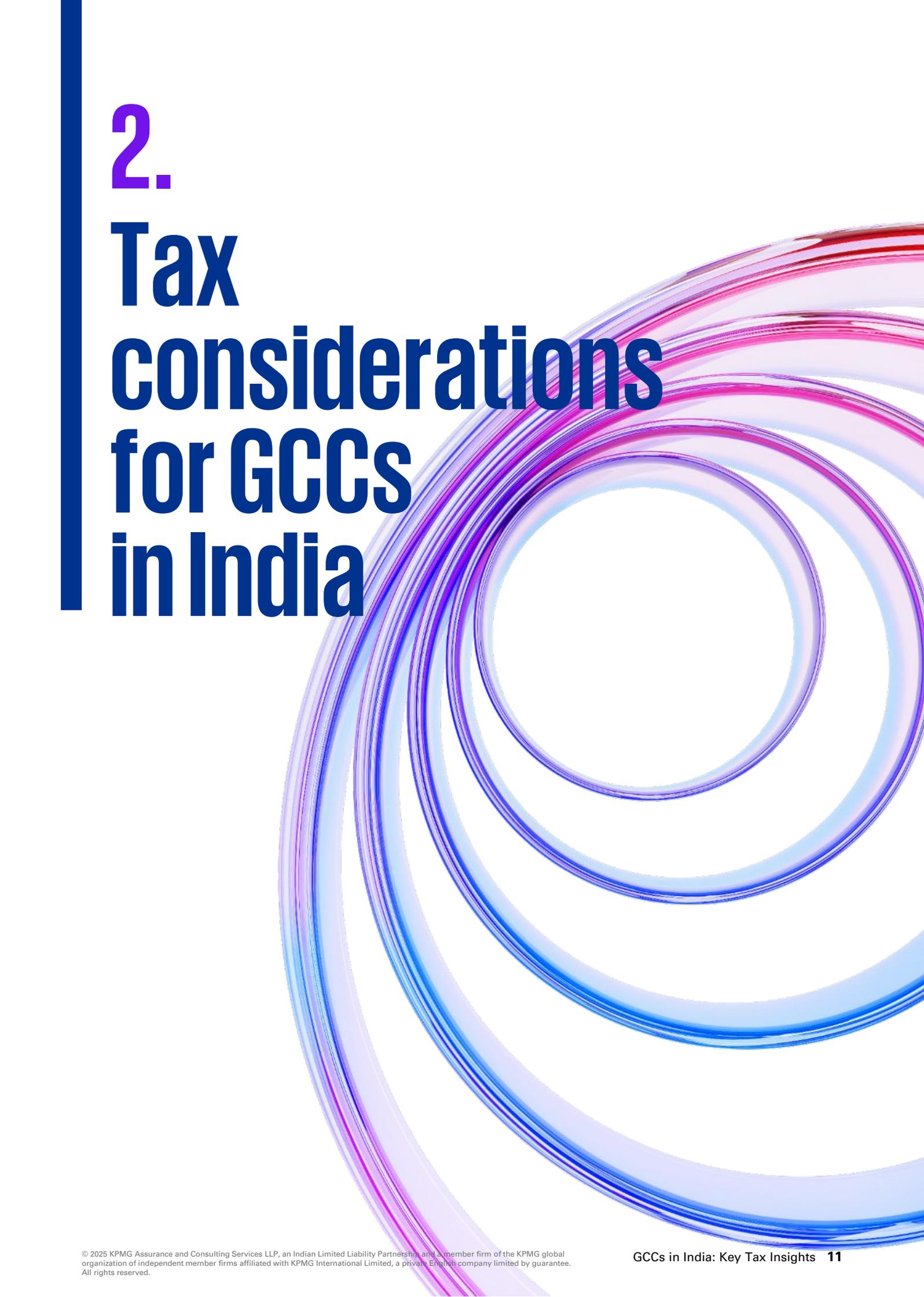
MNCs are increasingly utilising their GCCs to establish in-house CoEs with the goal of boosting and delivering sustainable business value.

GCCs actively invest in leadership development through structured frameworks designed to upskill talent, build a leadership pipeline and ensure capability deployment. GCCs also invest heavily in the continued learning of their employees, often outpacing other industries in terms of resources dedicated to training and development. These centers recognise the importance of retaining niche talent and in doing so, they prioritise upskilling in emerging technologies such as AI, data analytics and cloud computing. This focus on continuous learning has helped employees in GCCs stay competitive and relevant in a market that is more competitive than ever.

More than 50 per cent of GCCs have moved up to portfolio and transformation hubs, with 40 per cent CAGR increase in global roles and women leadership roles in the last 5 years. Also, almost 90 per cent of the GCCs operate as multi-functional centers, supporting technology, operations and product engineering.<sup>4</sup>

GCCs in India are increasingly focused on building AI capabilities and driving the AI transformation for their internal enterprise. A talent pool of over 120,000 AI/ML professionals and over 185 dedicated AI/ML CoEs is helping build specific use cases and the more mature GCCs are further developing expertise in full-stack development.<sup>4</sup>

4. India GCC Landscape Report – The 5 year Journey, NASSCOM, September 2024



# 2.

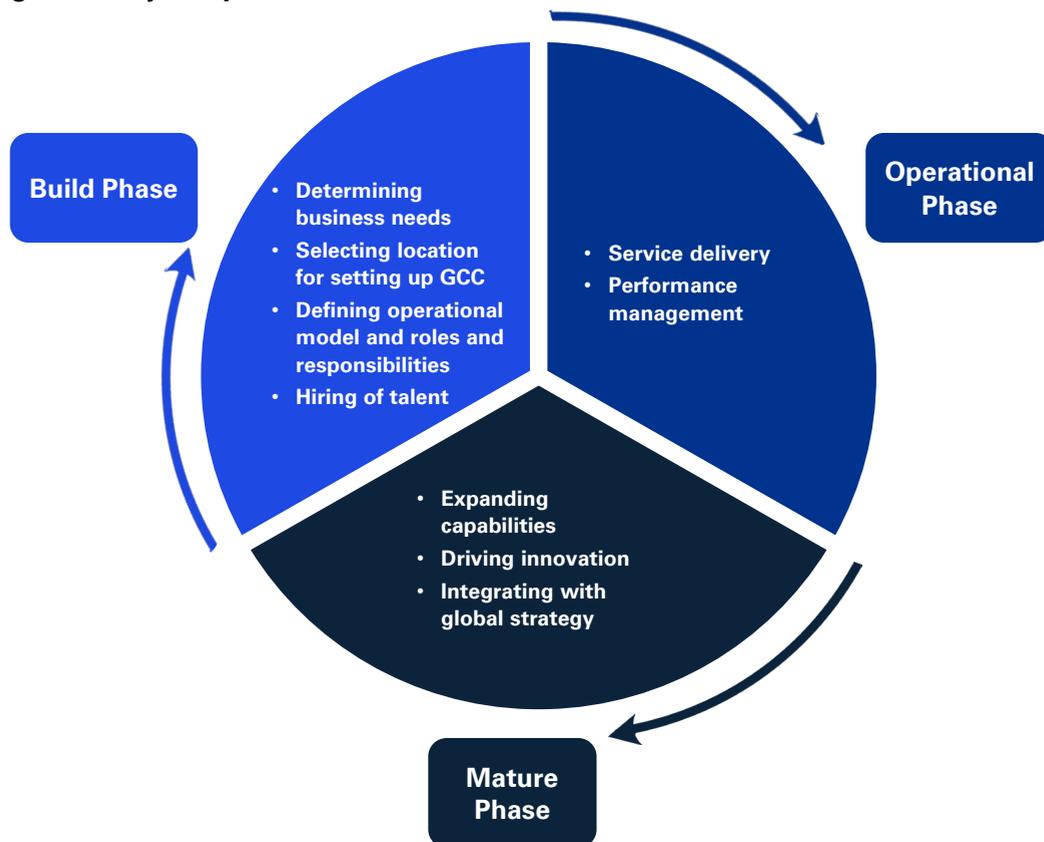
# Tax considerations for GCCs in India

## 2. Tax considerations for GCCs in India

The journey of a GCC is a strategic transformation that mirrors the growth of an enterprise itself. It can be broadly classified into three phases—build phase, operational phase and mature phase —each marked by evolving priorities, capabilities and impact. These phases are broad markers and in practice, one phase evolves seamlessly into another.

- 1. Build phase:** In the initial phase, typically the focus is on establishing the GCC’s infrastructure, governance and talent pool.
- 2. Operational phase:** Once the foundation is set, the GCC can be said to be in the operational phase, where it begins service delivery and attains a business-as-usual momentum.
- 3. Mature phase:** In this phase, the GCC can add more functions or take on higher value added roles and have increased people responsibilities within the MNC group in which it operates. In other words, it may no longer be a support function or a delivery center —it evolves into a catalyst for growth and competitive advantage. It moves beyond execution to cross-functional collaboration, co-create solutions and drive digital transformation.

### Indicative growth trajectory of a GCC



A GCC typically needs to comply with various local tax regulations when operating in India not only at the time of setting up in India but also during its operational and/or maturity phase. Each of these phases carry their own challenges. An understanding of this evolutionary trajectory is therefore helpful in understanding the possible tax issues that may arise in each of the above phases.

As per a recent KPMG in India and NASSCOM report on GCCs in India<sup>5</sup> : Building resilience for sustainable growth: 81 per cent of respondents mentioned transfer pricing as the top regulatory priority for GCCs in India. More than half of the respondents highlighted SEZ laws and STPI regulations (67 per cent) and labour laws (60 per cent) among key regulatory priorities.

5. GCCs in India: Building resilience for sustainable growth, KPMG & NASSCOM, May 2024

Some of the key tax and regulatory aspects to be considered by GCCs under each phase are highlighted below:

## 2.1 Build Phase [Pre-setup]

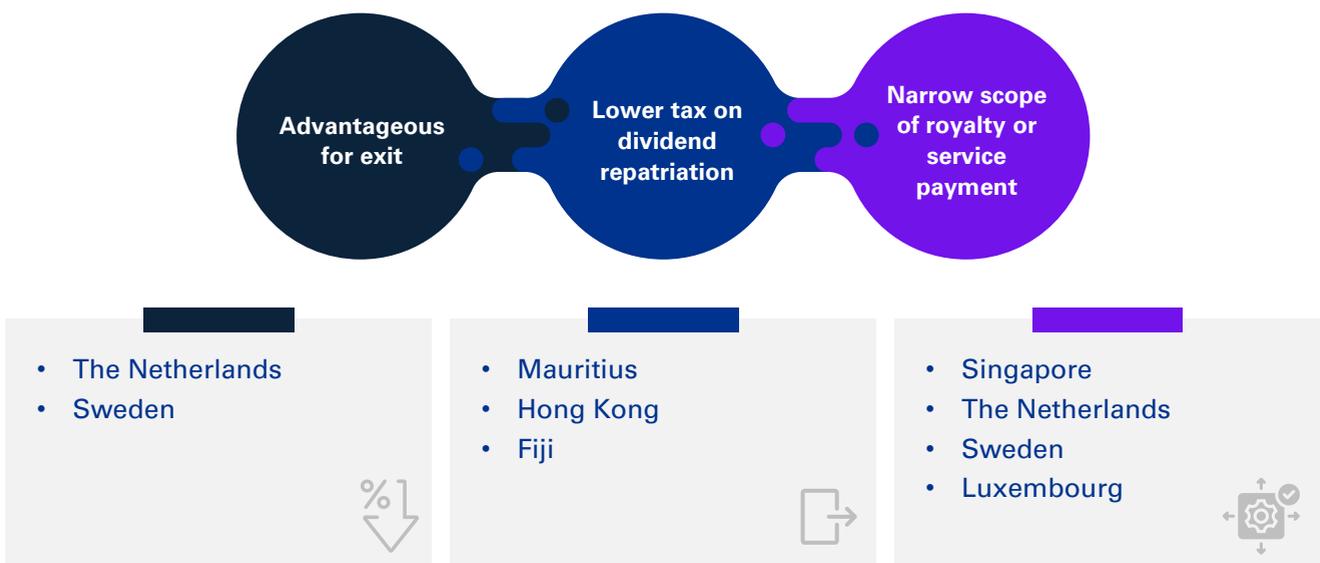
### 2.1.1 Entity structure evaluation

a) **Form of legal entity:** The Indian regulatory regime permits operations through various business forms:

#### Forms of legal entity

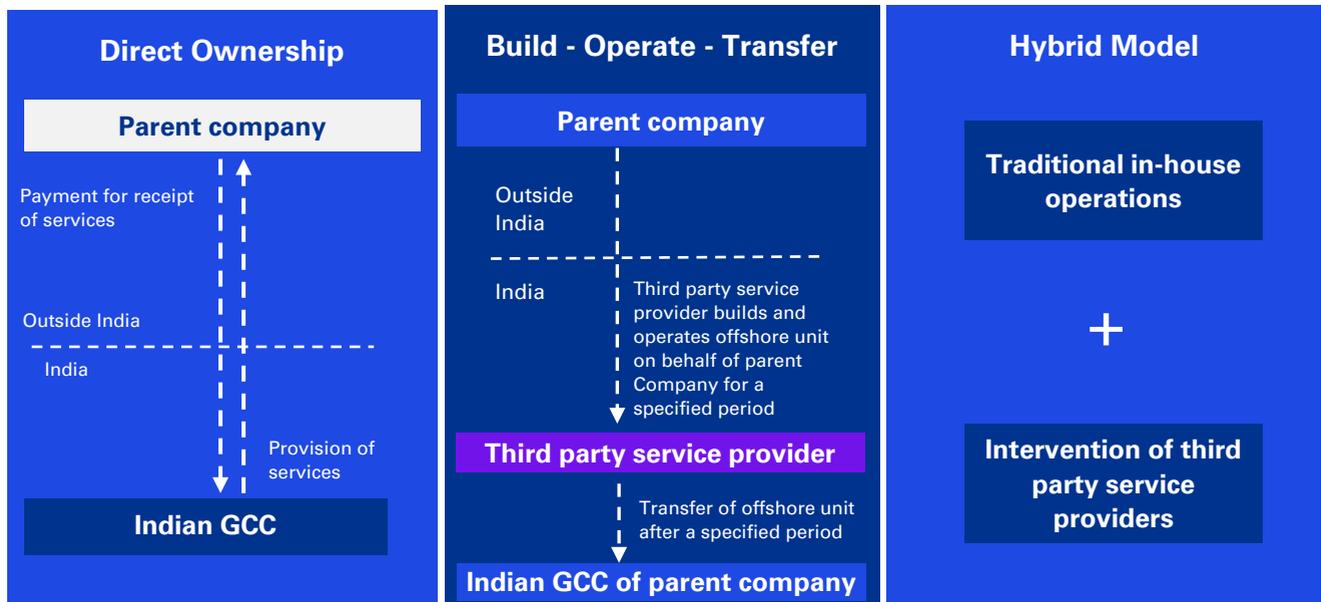


- a) **Wholly-owned subsidiary (WOS) model, a preferred choice for GCCs in India:** The WOS model, structured as a private limited company, is a popular choice for GCC setups in India, offering enhanced ownership control, effective management and robust intellectual property protection. While corporate tax rates for a WOS depend on turnover and tax regime, a new WOS generally qualifies for a concessional tax rate of 25.17 per cent. A private limited company needs at least two shareholders, who can be individuals or corporate entities, resident or non-resident. Additionally, the company must appoint two directors, with at least one being an Indian resident.
- b) **Exploring LLPs as an alternate option:** An LLP is a hybrid structure combining partnership flexibility and reduced compliance with limited liability and governance. It has a 34.94 per cent tax rate, but profit distributions are tax-exempt. When evaluating this form for a GCC in India, factors such as operational flexibility, funding options, tax benefits, regulatory compliance and ease of setup/exit should be considered.
- c) **Investment jurisdictional analysis:** As GCCs build cash reserves, selecting jurisdictions with favorable tax treaty covenants for repatriation and exit is important. Investments in India GCC can be optimised through jurisdictions having regard to tax treaties and substance requirements, such as beneficial ownership, principal purpose test and other anti-avoidance considerations. Some treaties have favorable exit clauses, while others offer lower dividend tax rates or limited scope for taxation of royalty or service payments.



## 2.1.2 Operating structure evaluation

GCCs can operate under different models, MNCs may choose a model based on factors such as strategic objectives, cost considerations, regulatory requirements and desired level of control. Here are some of the primary operating models adopted by MNCs:



Parent company fully owns (i.e. by way of equity) and has complete control over operations, decision making and strategic alignment.

A third-party service provider (or partner) is engaged to build and operate the offshore unit for an agreed-upon period, after which it is transferred to the Indian GCC of the parent company.

Balanced pathway for MNCs to mitigate risks, reduce initial capital expenditure and leverage the expertise of seasoned local operators while retaining the ability to gain full operational control in the future.

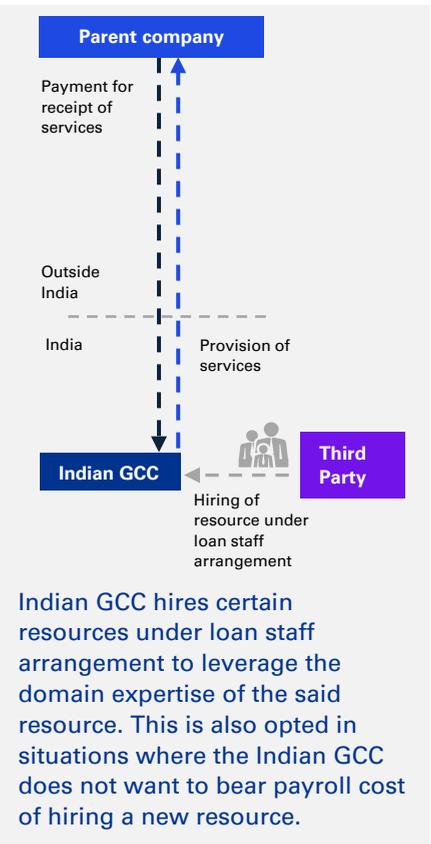
Strategic operating model that combines elements of both traditional in-house operations and outsourced services (intervention of third party service providers). Leverages the strengths of both approaches to optimise efficiency, cost-effectiveness and innovation.

**Hybrid model: Numerous models may be developed within this framework - the more commonly utilised variants are explained in business models 1 through 5 subsequently.**

### Business model 1: Customer dedicated resources



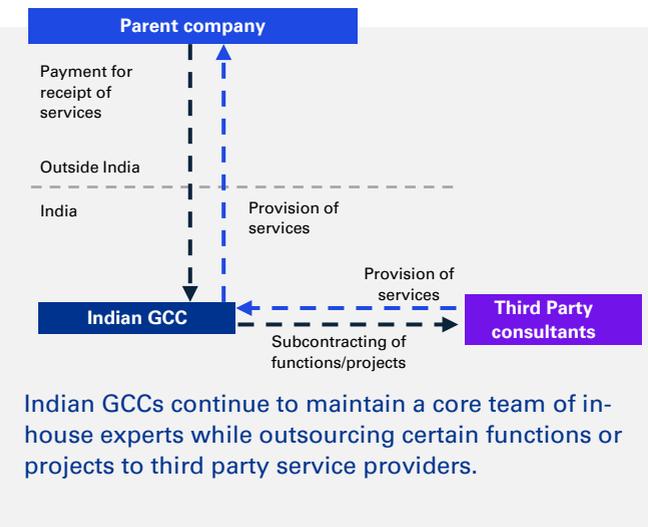
### Business model 2: Loan staff arrangement



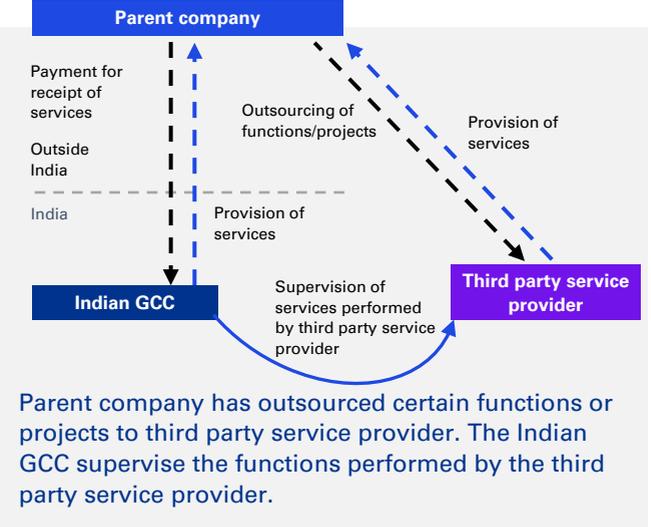
### Business model 3: Hiring of consultants



### Business model 4: Subcontracting



### Business model 5: Supervision



Each of the operating models have inherent tax and transfer pricing issues. A thorough evaluation of the following aspects is warranted before identifying the optimal business model.

- Corporate tax**
- Permanent establishment/place of effective management
  - Withholding tax/tax collection at source
  - Secondment arrangements

- Transfer pricing**
- Internal comparability
  - Treatment of subcontracting costs
  - Deemed international transactions

- Indirect tax**
- GST implications
  - State incentives

## 2.1.3 Location strategy

As MNCs continue to establish and expand their GCCs in India, devising an effective location strategy becomes crucial for maximising operational efficiency and achieving strategic objectives. An effective location strategy for GCCs in India requires a holistic approach that balances talent acquisition, cost efficiency, infrastructure and ease of doing business.

Further, different states in India offer various tax incentives and exemptions to attract foreign investment. MNCs should analyse Corporate Tax, Goods and Services Tax ('GST') implications and any available tax holidays or benefits. Understanding the local tax regime can significantly impact the overall cost structure and profitability of the GCC.

By carefully evaluating these factors, companies can establish GCCs that not only drive operational excellence but also contribute to their long-term strategic goals.

### a) State Incentives

GCCs can greatly benefit from the fiscal and non-fiscal incentives offered by various states within India. These incentives can significantly reduce the cost of doing business and make the business more competitive and sustainable in the long run. A locational evaluation is imperative before finalising the city/state for the GCC set up in India.

### State-wise GCC policy comparative

State	Karnataka	Andhra Pradesh	Gujarat	Madhya Pradesh	Uttar Pradesh	Haryana	Rajasthan	Tamil Nadu		Kerala	Maharashtra	
Policy	GCC	IT & GCC	GCC	GCC	GCC (draft)	IT/ITeS	Investment promotion	R&D	Special GCC	ER&D GCCs	IT/ ITeS	
<b>Various types of subsidies provided</b>												
CAPEX	Yes										Yes	
Employment	Yes								Yes			
Land related	Yes			Yes			Yes					
Lease/rental reimbursement	Yes			Yes		Yes						
Skilling & training	Yes			Yes			Yes					
Electricity	Yes					Yes				Yes		
Stamp duty			Yes								Yes	
OPEX			Yes		Yes							
Interest			Yes							Yes		
Customization	Yes				Yes							

### Evaluating and obtaining benefits under state GCC policy:

- Businesses can assess state-level GCC policies to unlock benefits that support both company growth and state economic development.
- States offer various incentives for GCC setups, typically categorised as:-
  - Fiscal incentives
  - Talent incentives
  - Infrastructure and operational support
- Proper evaluation helps businesses effectively leverage state incentives and optimise their GCC setup.

The initial decision of where and how to set up a GCC in India profoundly impacts its indirect tax treatment. The indirect tax benefits vary depending on specific type of entities and location. Therefore, it is important to analyse operational model, nature of activities, etc. before deciding on the 'mode of set up' from indirect tax perspective. A brief comparison of various 'modes of set up', i.e. as a SEZ, STPI, EOU, in DTA, are illustrated below.

### Comparison of various modes of set up

Operating as SEZ unit		Operate as STPI/EOU		Operate as DTA/NSTPI	
<b>Benefits under GST on domestic procurements</b>	Available	Benefits under GST on domestic procurements	X *	Benefits under GST on domestic procurements	X
<b>Benefits under custom on import of goods and services</b>	Available	Benefits under Custom on import of goods and services	Available (Goods)	Benefits under custom on import of goods and services	X
			X (Services)		
<b>Refund of ITC including option to claim refund of capital goods</b>	Available	Refund of ITC including option to claim refund of capital goods	Available	Refund of ITC including option to claim refund of capital goods	Available
<b>Cash flow impact</b>	Low	Cash flow impact	Medium to High	Cash flow impact	High
<b>Operation challenge/dependency on authorities</b>	High	Operation challenge/dependency on authorities	Moderate	Operation challenge/dependency on authorities	Minimum

\* Deemed export (procurement of goods without payment of GST) available for goods manufactured in India

### b) IFSC - Gift city: Exploring incentives and income-tax holiday

The IFSC at GIFT City established near the city of Gandhinagar in the state of Gujarat, is India's flagship initiative to create a global financial hub. The IFSC at GIFT City facilitates both onshore and offshore financial services, aiming to deliver cross-border financial products and services within a favorable tax framework.

The IFSC offers several incentives to entities operating within its jurisdiction, including:

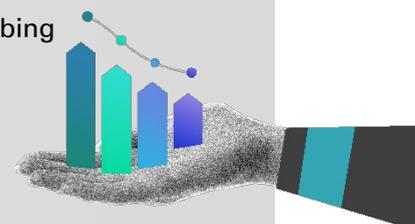
- Significant tax incentives - 100 per cent tax holiday for 10 consecutive financial years
- Exemption from stamp duty and other non-tax state level incentives
- Exemption from GST
- Protection from exchange fluctuation as dealings in IFSC in foreign exchange, etc.

#### 1. Benefits to GCCs within financial services ('FS') sector:

International Financial Services Centers Authority (IFSCA) introduced a bespoke regulatory framework for GICs operating within the financial services (FS) sector in IFSC-GIFT City. This initiative is designed to position IFSC as a premier destination for FS GCCs by offering a globally competitive, light-touch regulatory environment.

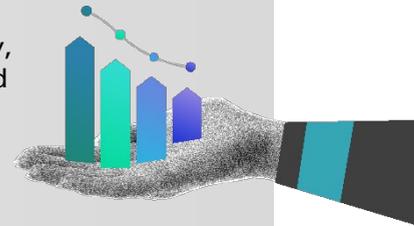
Under this framework, FS GICs are permitted to deliver a broad spectrum of support services, both directly and indirectly, to entities within their financial services group.

What sets this framework apart is its contextual flexibility. Rather than prescribing a rigid definition, the term "support services" needs to be determined by the nature and operational model of the GIC. This allows FS GCCs to align their service portfolios with evolving group-level strategies, regulatory expectations and innovation agendas—whether in compliance, analytics, risk, or digital transformation.



## 2. Expanding opportunity to non-FS sector GCCs

With a view to expand the benefits to non-FS companies as well, in June 2024, the IFSCA introduced the Book-keeping, Accounting, Taxation and Financial Crime Compliance Services (BATF) Regulations, 2024. These regulations permit the provision of book-keeping, taxation, accounting and financial crime compliance services to units within the IFSC and foreign entities not engaged in the financial services sector. This development offers unparalleled opportunities for both financial and non-financial services entities and outsourcing firms (GCCs) to become a CoE for services like bookkeeping, accounting, taxation and financial crime compliance. Important considerations include setting up an office in GIFT City, availability of skills, flexible/hybrid/Work from Home (WFH) arrangements and workforce strength, all of which influence operational efficiency and strategic business decisions when establishing an office in GIFT City.



### 2.1.4 Funding options including enhanced startup capital

There are various modes available for funding an Indian private limited company, including equity, debt (external commercial borrowings) and various hybrid instruments, for e.g. convertible debentures and preference shares.

The choice of financing for a GCC is influenced by factors such as foreign exchange regulations, tax efficiency and the group's strategic preferences, future plans and objectives.

Equity funding is often popular during the setup phase as initial funding is exempt from valuation requirements under current foreign exchange regulations. Subsequent capital raises may need to comply with pricing/valuation guidelines, so it is advisable to forecast expenses for the GCC setup in India, including leased premise security deposits, initial capital outlays (like laptops), recruitment and consultant costs, to ensure sufficient capital and avoid the administrative burden of repeated funding tranches. For additional or unforeseen needs, options like raising more capital, advances against services, or ECBs can be considered, with careful attention to regulatory requirements and tax implications.

### 2.1.5 Navigating global mobility challenges in India

The advent of GCCs has significantly influenced the dynamics of expatriate employee movements and work arrangements. Initial pre-establishment visits to conduct feasibility studies and finalise locations have become common. Once a GCC is incorporated, post-establishment visits often occur, focusing on training local teams and providing setup assistance and eventually longer-term arrangements such as medium/long term secondments and remote/agile working models as required.

Expatriate arrangements may often lead to extensive tax litigation, if not planned appropriately in advance. The tax risks are compounded by the fact that there are differing rulings from Indian tax courts and tribunals. Key areas of dispute include the determination of PE, the applicability of withholding tax on salary reimbursements treated as fees for technical services and the treatment of such arrangements under indirect tax laws as import of manpower supply. It is important to appropriately structure such arrangements with the Indian entity from an overall tax perspective.

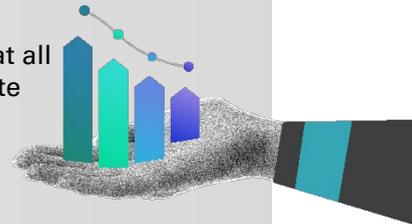
## 2.1.6 Adopting a strategic transfer pricing (TP) approach

A prudent businessman would like to set-up the pricing related to its inter-company transactions at the time of or before entering into the transaction. While MNC groups typically have their global TP policies in place and undertake inter-company transactions on that basis, it is pertinent to ensure that the transactions proposed to be undertaken by/with the GCCs are on an arm's length basis from an India TP perspective.

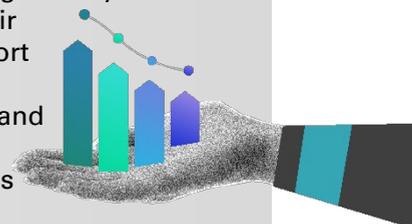
While there is no particular statutory requirement to undertake a TP planning exercise, carrying out the same helps in supporting the strategic objectives of a MNC, managing transfer pricing risks, maintaining transparency, consistency and providing authenticity to the arm's length nature of a transaction in the case of audit scrutiny. Illustrated below are steps to be adopted by the GCCs/MNC while setting up their business or entering into new related party transactions:

**a) Functions, Assets and Risks ('FAR') analysis** – A FAR analysis seeks to identify the economically significant activities and responsibilities undertaken, assets employed or contributed and risks assumed by the parties to the transactions. The analysis focuses on what the parties actually do and the capabilities they provide. In transactions between two independent enterprises, compensation usually reflects the functions that each enterprise performs (taking into account assets used and risks assumed). Therefore, in delineating the controlled transaction and determining comparability between controlled and uncontrolled transactions or entities, a FAR analysis is necessary.

FAR analysis is the backbone of transfer pricing and it is from this analysis that all subsequent steps such as characterisation of entity, choice of most appropriate method, choice of the appropriate profit level indicator and the economic analysis emerge. Hence, great care should be taken to document an accurate and complete FAR analysis.



**b) Formulation of transfer pricing policy** – A FAR analysis forms the foundation for determining the transfer pricing policy and compensation structure for the GCC. GCCs are generally remunerated using a cost-plus markup model for the services rendered to their international affiliates/parent entity. GCCs that provide high-end or core support services typically require higher compensation compared to those that offer relatively routine support services. Thus, to substantiate arm's length pricing and ensure accurate compliance, maintaining comprehensive and well-structured transfer pricing policy(ies) before commencement of related party transactions is imperative.



## 2.1.7 Single vs multiple GST registration:

- In India, GST registration can either be single or multiple depending upon the geographical location of the business
- If the business has presence in multiple states, it is required to obtain a separate GST registration in each state including additional registration for distribution of common credit as input service distributor
- Each registration requires separate record keeping, separate return filing and adherence to state wise GST audits and assessment proceedings
- Analysing single versus multiple registrations helps the GCC to optimise cost efficiencies for business, streamline tax administration and in handling compliance and facilitating effective input tax credit management, etc.

## 2.1.8 Review of intercompany agreements

A clear and robust inter-company agreement is essential to streamline the foundation of operating a GCC in India. Once set up, thoroughly reviewing the inter-company agreement before execution is crucial to ensure clearly outlined roles, services, payment terms and remuneration structure. From a PE perspective, limiting the role to support functions without granting the GCC authority to conclude commercial contracts on behalf of overseas group entities and avoiding common directorship are important considerations.

From a GST perspective, pro-active and careful consideration in drafting clauses pertaining to invoicing, payments and scope of services/for appropriate determination of classification and place of supply of services are important.

## 2.1.9 Labour laws

Establishing a GCC in India warrants compliance with labour laws/regulatory framework.

India's labour law landscape is multifaceted, encompassing a wide array of regulations governing wages, employment contracts, workplace safety, employee benefits, industrial relations and more, both at central and state levels. By building strong compliance frameworks and promoting ethical employment, GCCs can reduce legal risks and gain strategic advantages. Ongoing monitoring and proactive adaptation to regulatory changes are key to long-term success and India's growth as a global capability hub.

A few key areas of labour law compliance for GCCs are outlined below.

<b>Employment contracts</b>	Must be clear and legally sound, covering job roles, compensation structure, working hours, leave, policy, termination clauses and other pertinent terms and conditions of employment
<b>Employee benefits and social security</b>	This includes contributions to Employees' Provident Fund (EPF), Employees' State Insurance (ESI) and gratuity to eligible employees. Understanding eligibility criteria, contribution rates and compliance/administrative procedures for these schemes is essential.
<b>Workplace safety and health</b>	GCCs must ensure safe and healthy working conditions, conduct risk assessments, provide safety equipment and training and establish mechanisms for addressing workplace hazards and accidents.
<b>Industrial relations</b>	While GCCs may not always fall directly under the purview of traditional industrial disputes, understanding fair labour practices and grievance redressal mechanisms is crucial for maintaining harmonious employee relations.
<b>State-specific laws</b>	Compliance with local laws like the Shops and Establishments Act, Professional Tax (PT) and Labour Welfare Fund (LWF) is required based on the GCC's physical presence and employee location
<b>Contractor compliance</b>	GCCs often engage third-party contract staff for support services. Although legally employed by contractors, Indian labour laws consider GCCs as principal employers, making them responsible for compliance. Regular audits of contractor agreements are essential to ensure adherence to labour regulations and mitigate legal risks.
<b>Employment of foreign nationals</b>	For GCCs employing foreign passport holders, compliance with immigration laws, visa and PF regulations are essential. Further, one needs to analyse the benefit of social security agreements applicable to them, if any.

GCCs often engage gig, platform and other new-age workers, making it essential to evaluate applicable labour codes and emerging social security frameworks. All current and proposed regulations related to such workforce arrangements should be carefully analysed.

### Proposed labour codes

The Government of India has undertaken a major reform to simplify and modernise the country's labour laws by consolidating 29 existing labour legislations into four unified labour codes. These are: Code on Wages, 2019, Code on Social Security, 2020, Occupational Safety, Health and Working Conditions Code, 2020 and Industrial Relations Code, 2020. Although all four codes have been enacted by the Parliament and have received presidential assent, they are expected to come into effect on dates to be notified by the Central Government.

## 2.2 Operational/Implementation phase

### 2.2.1 Comprehensive tax compliances

Below is a broad level overview of Indian compliance requirements from a tax and regulatory perspective:

<b>Withholding tax compliance</b>	Comply with monthly tax payments, quarterly return filings and issue withholding tax certificates within specified timelines.
<b>Tax Audit Report (TAR) and TP audit report</b>	For GCCs with TP applicability, TAR and TP audit report deadline is 31 October annually.
<b>Return of Income (ROI)</b>	For GCCs with TP applicability, the annual tax return deadline is 30 November following the fiscal year. Otherwise, it is 31 October.
<b>Advance tax payment</b>	Estimate annual income quarterly and pay taxes in advance through four installments.
<b>Final tax payment</b>	If prepaid taxes are less than the final liability, GCCs must pay self-assessment tax before filing ROI.
<b>Foreign Liabilities and Assets (FLA) Form</b>	GCCs must report foreign assets and liabilities to RBI by 15 July using unaudited statements, with a revised return by 30 September if audited statements are available.
<b>Statement of Financial Transaction (SFT)- Form 61A</b>	GCCs with specified transactions must file SFT by 31 May following the fiscal year. These include dividend declarations, infusion of capital beyond prescribed limits etc.
<b>GCC operating from DTA, SEZ, STP/EOU</b>	<p>Comply with various compliances and undergo various audits such as:</p> <ul style="list-style-type: none"> <li>• E-invoicing (other than for SEZ)/E-way requirement</li> <li>• Monthly and Annual returns under GST/SEZ/STP/EOU</li> <li>• Bonding/debonding of goods.</li> <li>• Licensing requirement for used/restricted goods.</li> <li>• GST refund</li> <li>• GST/Custom/SEZ/FTP - Assessment/Audit/Litigation</li> </ul> <p><i>While GST applies broadly, SEZ, STP/EOU and FTP benefits come with their own distinct set of compliance requirement and audit mechanisms focused heavily on export performance and adherence to specific regulations under such scheme. GCC must develop robust internal process to comply with various regulation under indirect tax law to ensure uninterrupted functioning of the business.</i></p>

### 2.2.2 Cash repatriation

Over a period of time, the operations of the GCC may result in cash accumulation in its balance sheet as most GCCs tend to get compensated on a risk-mitigated cost-plus basis. Consequently, there could be situations where the foreign parent company may desire to repatriate such excess cash from India to its shareholder entities, giving rise to tax consequences emanating therefrom.

Profits can be repatriated from the Indian entity to parent entities/shareholders through dividend on the capital invested and certain other modes such as Royalty/Fee for Technical Services (FTS) payments, subject to compliance with Indian regulations and tax provisions.

<b>Dividend</b>	<ul style="list-style-type: none"> <li>• More popular and simplistic form of repatriation</li> <li>• Since the abolition of the dividend distribution tax in India in April 2020, dividends in India are taxed in the hands of recipient</li> <li>• While the domestic law prescribes a withholding tax rate of 20 per cent (plus surcharge/cess), reduced tax rates (5 per cent to 15 per cent) are applicable to foreign shareholders depending on the relevant tax treaty in application.</li> </ul>
<b>Royalty/ FTS</b>	<ul style="list-style-type: none"> <li>• Royalties and FTS are payments for the use of intellectual property or technical services</li> <li>• Navigating transfer pricing and withholding tax implications is important</li> <li>• While the domestic law prescribes a 20 per cent (plus surcharge/cess) withholding tax, tax treaties often prescribe a lower 10 per cent/15 per cent rate. Some treaties narrow taxability for services involving technology transfer through the 'make available' condition (such as., U.S., U.K., Canada, Singapore, the Netherlands (NL)).</li> </ul>
<b>Other repatriations</b>	<ul style="list-style-type: none"> <li>• Include exit strategies like stake transfer, buyback of shares and capital reduction, which entail tax implications and capital gains that need evaluation based on tax treaties and domestic law</li> <li>• Certain treaties (e.g., NL, Sweden) do not tax share transfers in India, subject to conditions.</li> </ul>

## 2.3 Operational/Implementation phase

Once the GCC has been established and functioning for several years, it may progressively perform more complex, independent or high-value adding functions and play a larger role in the overall workflow of its MNC. It is also seen that the mature GCCs have a larger say in global operations.

During the maturity phase, while the tax considerations outlined in the operational phase remain relevant, the following specific aspects merit careful attention, as detailed below.

### 2.3.1 Impact on operating structures

There could be changes in the operating structure/model and there could be increased transactions/operations with independent third parties (Refer discussion on operating structure evaluation in 2.1.2). Appropriate tax consequences relating to corporate tax, indirect tax and transfer pricing may need to be considered, whilst evaluating these changes.

### 2.3.2 Generation of patents

The increased value-added work performed by employees may result in them owning/co-owning/inventing/co-inventing the resultant patents. Although the GCCs are usually contracted on a work for hire basis with their MNC group entities resulting in the economic ownership of patents usually vesting with the GCCs, however there are certain tax issues that may arise. For e.g., under the transfer pricing provisions, it is important to determine whether presence of such patents impacts the GCC's economic characterisation. This issue has been examined by the IRA not only in TP audits at the field audit levels, but also during APA negotiations.

Typically, the GCCs should aim to collate data regarding the patents, understand their quantum and significance and role played in the ultimate product/services of the overseas group entities and then take a position on the impact of such patents on their transfer pricing arrangements.

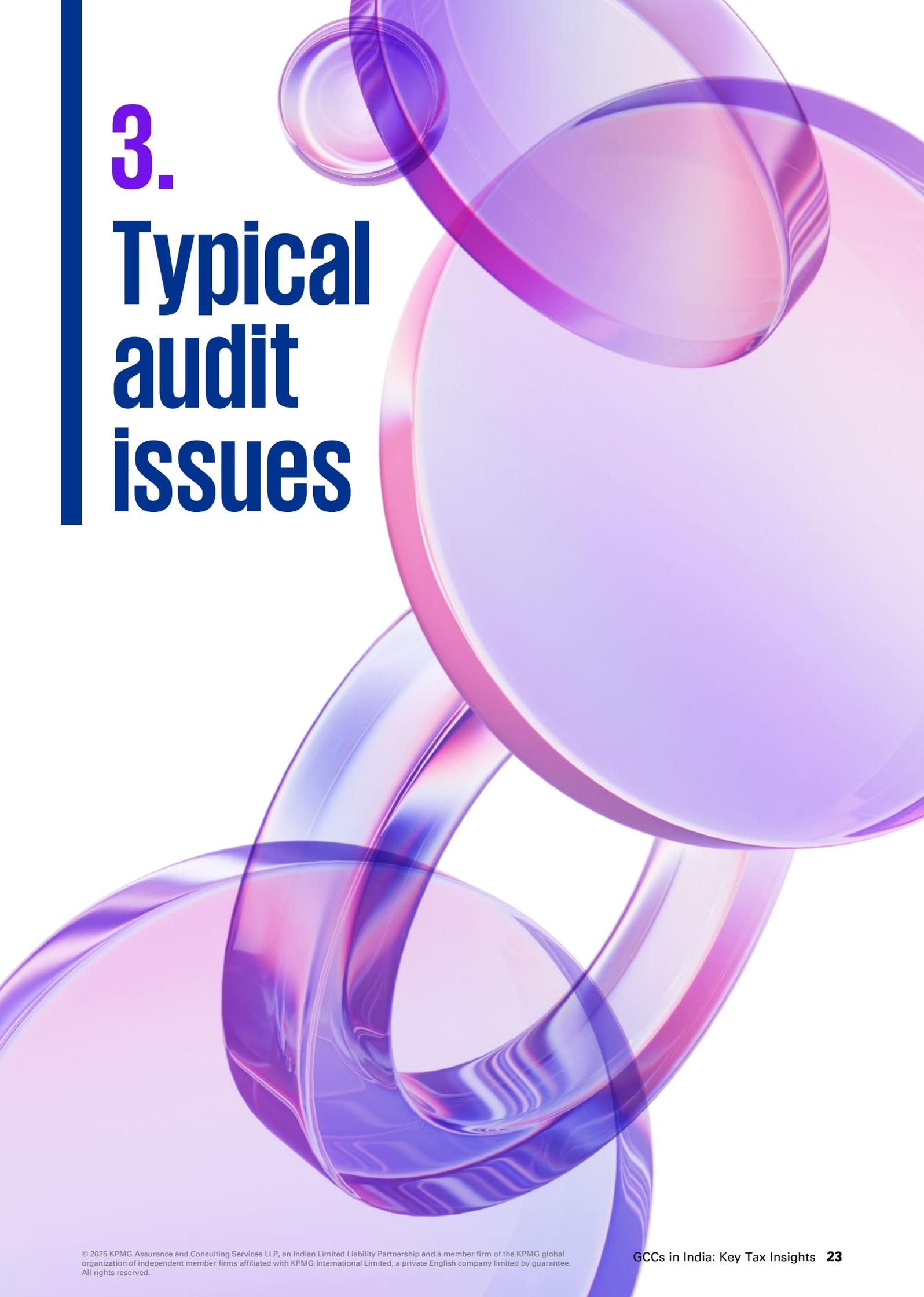
### 2.3.3 People responsibilities

The GCCs should document changes in roles and responsibilities of personnel and their reporting relationships. Such changes may entail the possibility of triggering tax issues such as a PE or a POEM and therefore aligning the contractual obligations with the actual conduct is important to understand and be aware of the tax implications if any.

### 2.3.4 Automating the tax function

Embedding technology solutions within a GCC can transform the tax function from a compliance-focused unit into a strategic enabler. As GCCs mature, they can improvise on internal controls by leveraging advanced tax technology solutions for data management and reporting, to streamline processes and improve collaboration. This can include the adoption of cloud computing, artificial intelligence, data analytics and automation tools.

Embedding technology solutions within GCCs is a strategic move that transforms the tax function from a reactive, compliance-driven role into a proactive, insight-generating powerhouse.



**3.**

# Typical audit issues

# 3. Typical audit issues

## 3.1 Direct tax audit issues

### a) Foreign payments - Withholding tax rates, limits and compliances



Any remittance by the GCC to overseas group entities require compliance with WHT and regulatory filings. WHT applies to payments made to non-residents, including royalties, fees for technical services, interest and dividends without any threshold. Non-residents from countries that have a tax treaty with India may claim treaty benefits if they are more favorable, subject to non-residents providing the following documents:

- A valid Tax Residency Certificate (TRC) from its home country for the relevant period
- A No-PE declaration; and
- An electronically filed Form 10F<sup>6</sup>, if applicable.

#### Areas to focus



Foreign companies receiving such income from India need to carefully consider tax reporting in India in the form of income-tax return filing and transfer pricing reporting and compliances, in light of increased enquiries by the Indian tax department.

### b) Treatment of pre-incorporation and pre-set up expenses



#### 1. Reimbursement of setup expenses by holding companies

In the process of setting up a GCC in India, holding companies often incur expenses on behalf of the new entity such as (such as leadership recruitment costs, travel expenses, initial lease/rental payments, computer peripherals). These expenses can include pre-incorporation, pre-operative and post-operative costs until the GCC becomes fully functional and independent. Once the GCC is established, the holding company typically expects a reimbursement for such costs.

It is important to consider associated tax and regulatory implications, which vary for each category of expense. This includes compliance with Reserve Bank of India (RBI) guidelines, which may require prior approval for remittance of pre-incorporation expenses, especially if it exceeds certain thresholds (five per cent of investment brought into India or USD100,000 whichever is higher). Additionally, the tax implications of reimbursement, such as potential withholding tax obligations, should be carefully evaluated. TP considerations also come into play, as they may create a loop of fund flows between the GCC and the holding company typically where the Indian GCC is remunerated on a cost-plus margin basis. To ensure a smooth reimbursement process, it is advisable to plan such expenses in order to avoid any potential adverse implications.

#### 2. Set-up date analysis - allowance of pre-incorporation/operative expenses

Under Indian tax law, there is a distinction between 'incorporation', 'setting up' of business, and 'commencement' of operations of the entity, the distinction being crucial as expenses are deductible from income only after the business has been 'set up'. Owing to this concept, various expenses such as employee costs, rent, administrative costs, etc. incurred post incorporation of the entity but prior to 'set up' of the business become sunk costs. 'Setting up' refers to the point where the company after incorporation is ready to start operations and needs to be determined after a careful factual examination and principles emerging from the tax law and judicial precedents referring to various parameters such as such as hiring of manpower, obtaining

6. A Form 10F is a self-declaration form which requires certain additional information such as status, Tax Identification Number, Financial Year, address etc. of the taxpayer availing benefit of the tax treaty. Form 10F is required only when TRC does not contain the prescribed particulars. This often requires a detailed analysis to ensure WHT is met where applicable.

requisite licenses, executing agreements, leasing office space etc. Specified preliminary expenses (such as expenses for preparation of feasibility report, conducting market survey, legal charges for agreement drafting, preparation/printing of by-laws etc.), may be allowed on a deferred basis subject to the prescribed conditions under the relevant provisions of the Indian tax law.

### Areas to focus



- Compliance with RBI guidelines and provisions of Indian tax law
- Proper documentation to substantiate cost to cost arrangement between GCC and holding/parent company
- Careful classification of expenses between 'incorporation', 'setting up' and 'commencement'.

## c) Secondment arrangements



Many global organisations often depute employees to GCCs in India for setup, training, or operational support. These arrangements involve complex tax, immigration and regulatory implications. Foreign nationals require appropriate visas and residential permits. GCCs must assess relevant tax provisions under the Income-tax Act, DTAAs and GST laws and maintain clear documentation to ensure compliance and avoid penalties.

Foreign nationals seconded to work for the GCCs in India require appropriate visas and residential permits. GCCs are also required to evaluate and understand obligations regarding withholding taxes on salaries paid to seconded employees. Adequate documentation and adherence to tax regulations are vital to avoid penalties and ensure compliance.

### Areas to focus



- A well-structured secondment agreement should explicitly define employee's roles, responsibilities, duration, compensation details and reimbursement mechanisms. It's also critical to evaluate PE risk for the parent company and mitigate it through detailed documentation of reporting lines and duties
- Proper structuring and compliance are essential to minimise risks and ensure smooth operations.

## d) Employee Stock Option Plans



Employee Stock Option Plans (ESOPs) are a popular form of compensation that grant employees the right to purchase company shares at a predetermined price after a vesting period. For GCCs operating in India, ESOPs are a powerful tool for talent retention and performance incentives, particularly for senior professionals engaged in global mandates. They align employee interests with the long-term goals of the global parent entity and help attract top talent without requiring immediate cash outflows.

From a tax perspective, it is important to consider the allowability of expenses and ensure compliance with regulatory requirements. ESOP costs have been extensively litigated in India, with the prevailing judicial view being that such expenses are tax-deductible as employee compensation,

with any discount included in employee costs. The timing of these deductions has also been debated, with the judiciary generally viewing that ESOP expenses should be deductible for the proportion of shares vested during the year, as the liability is ascertained upon vesting. To minimise litigation risk, the Indian Company can claim the deduction in the year the cost is reimbursed to the parent company, rather than the vesting year, resulting in a timing difference. No withholding is required when making reimbursement. For cross-charges to overseas parents against ESOPs, regulatory compliance must be adhered to, with repatriation done within permissible time frames (6 months for import of services under current regulations).

### Areas to focus



- A cost-recharge agreement between the Indian company and the overseas parent, detailing the nature of the charge, basis of allocation and other identifiers (such as employee headcount and vesting schedules)
- Appropriate documentation to substantiate the deduction claim - Equity compensation scheme, cost-recharge agreement, debit notes/invoices, employee details and Form 16 issued to them, valuation reports and the annual filing with the Reserve Bank of India reporting the equity allotted to Indian employees.

## 3.2 GST Issues

### a) Intermediary/testing services



- The services provided by India GCC requires determination of 'place of supply of services' and 'classification' under GST based on the terms of the intercompany agreements
- If the services provided by the India GCC are in the nature of 'intermediary services' (i.e., arranging or facilitating the supply of goods or services between two or more person) or such service where 'place of supply of services' is India (testing of goods supplied by overseas entity), even if the recipient of service is outside India, GST may be applicable. This been a contentious area leading to denial of various indirect tax benefit and hence warrants appropriate consideration
- However, the 56th GST Council has recommended to omit section 13(8)(b) of the IGST Act. Accordingly, the place of supply for "intermediary services" will be determined as per the default provision under section 13(2) of the IGST Act i.e. the location of the recipient of such services. Once the change is notified, this will allow intermediary services provided by Indian suppliers to qualify as export of services
- The proposed amendment is expected to have prospective effect, which may not resolve ongoing disputes. Legacy matters will need to be contested based on their specific facts and merits
- GCC may revisit contractual terms and pricing with overseas customers, as GST will no longer be a tax cost for intermediary services provided to non-residents
- Further, as per proposed recommendations, the place of supply for intermediary services provided by foreign suppliers to Indian clients will be the recipient's location, i.e., in India. Once implemented, this change will make such services qualify as import of services. Consequently, GST under reverse charge mechanism will be applicable on intermediary services received from foreign suppliers.

## 3.3 Transfer pricing audit issues

GCCs are facing increased scrutiny from Indian Revenue authorities. This has led to significant transfer pricing adjustments, making it crucial for GCCs to maintain robust documentation and justification for their operating models. Some of the key transfer pricing audit issues faced by GCC's are:

## a) Re-characterisation of the GCC



GCCs were originally set up as offshore hubs to perform support services for the global enterprise. However, in the TP audits conducted, the IRA have increasingly been scrutinizing and questioning the 'nature of activities' being performed and have sought to recharacterize GCCs from low end support service provider to high-end support service providers, i.e.

- low end BPO to high end KPO
- contract R&D to entrepreneurial R&D
- procurement/marketing support service provider to a distributor, etc.

The doctrine of 'Substance over Form' typically allows tax authorities to ignore the written contractual terms between parties and consider the actual substance to recharacterize transaction. Thus, while the intercompany agreements are the first step to understand the legal form of a transaction, the actual conduct of the parties should reasonably reflect in the functional analysis (analysis of functions performed, risks undertaken and assets employed). Any inconsistency between the two often leads to disputes in the Indian context.

Consequently, the IRA has increasingly been focused on scrutinizing the inter-company agreements, actual conduct of the GCCs, to assure that the economic characterisation and the consequent mark-up being earned by the GCCs is commensurate with the functional and risk profile and the value creation.

### Areas to focus



Documentation of the functional profile that accurately reflects its operations and subsequent economic characterisation is the key.

## b) Treatment of cost components



GCC's are generally compensated on a cost-plus arm's length mark up. With respect to application of mark up, the IRA's endeavor has been to fully capture all direct and indirect costs incurred by the taxpayer for rendition of services to the parent/group company. In the event any of the costs are not included in cost base for application of mark up, it is alleged that cost base is deflated to that extent resulting in lesser corresponding compensation being earned by the GCC.

Tabulated below is an illustrative list of costs which are commonly challenged by the IRA and alleged to be 'cost base eroding in nature'.

Nature of cost	Challenges by IRA
<b>Free of cost asset/goods/services</b>	<ul style="list-style-type: none"> <li>• To illustrate, the headquarter of the MNC group procures software/applications/tools for the group entities/provides services/training to the GCC but does not allocate the costs to the Indian GCC</li> <li>• The cost thereof is omitted from the cost base for mark-up purpose</li> <li>• This is considered as revenue leakage by the IRAs.</li> </ul>
<b>Share based compensation ('SBC')</b>	<ul style="list-style-type: none"> <li>• SBC costs associated with the ESOPs/Restricted Stock Units ('RSUs') granted to employees of the Indian GCC by the MNC headquarter are recorded in the GCC's financial statements due to accounting requirements but are viewed as purely notional in nature</li> <li>• These costs are not included in the 'operating expense' cost base for mark-up purposes, nor claimed as a tax-deductible expense.</li> </ul>
<b>Management fee/intra-group charges/head office allocations</b>	<ul style="list-style-type: none"> <li>• Where a GCC receives a management fee charge from its group entity, the general expectation of IRA is to include such fee as part of operating expenses and include a mark-up on it</li> <li>• Even where such fee has been marked-up, there is an additional requirement for the GCC to demonstrate the benefits received through evidence, in absence of which, the tax authorities may disallow the fee although continue to include it for mark-up purposes, thus, creating a potential double taxation position.</li> </ul>
<b>Pass through costs</b>	<ul style="list-style-type: none"> <li>• In cases where the Indian GCC pays expense to a third party on behalf of AE out of administrative convenience, it recovers the same from AE without any mark up</li> <li>• The IRA alleges that the said expenses should have been recovered by the Indian GCC along with mark up</li> <li>• The position is contrary to Indian judicial rulings that generally suggest when a service provider does not bear any risk or undertake any function/responsibility towards a cost, it can be considered as pass-through and thus the costs can be excluded from the mark-up.</li> </ul>

Nature of cost	Challenges by IRA
Subcontracting charges	<ul style="list-style-type: none"> <li>While most GCCs classify sub-contracting costs as “pass-through” by stating that the GCC has not added any value and merely incorporated the output in its overall deliverable to the AE, it is often argued by the IRAs that the outsourcing cost was directly related to the services provided to the AE and it was not a case that the AE had directly given contract to other parties. Thus, the subcontracting cost should form part of the operating cost base for application of mark-up.</li> </ul>
Foreign exchange gain/loss	<ul style="list-style-type: none"> <li>The inclusion/exclusion of foreign exchange loss/gain to/from the cost base has been a subject matter of differing judicial opinions and GCCs take different approaches</li> <li>Definition of operating revenue/expense in the Safe Harbour provisions (Rule 10TA) state that loss/gain arising on account of foreign currency fluctuations should not be considered as part of operating expense/operating income</li> <li>Additionally, it is not uncommon for GCCs to agree in APAs to exclude such losses from the cost base to mitigate the impact of foreign exchange on the arm’s length determination.</li> </ul>
Indian Accounting Standards ('Ind AS') adjustments such as 'impairment of rights-of-use assets' or 'other comprehensive income/expenses' as adjusted from employee benefit expenses	<ul style="list-style-type: none"> <li>Ind AS accounting framework in India may require fair valuation/recognition of notional items of income and expenses</li> <li>Applying this framework could result in differences between the items of costs and income as recorded in the financial statements and that which should be used for mark-up purposes.</li> </ul>

### Areas to focus

- Define the cost base in inter-company agreement w.r.t inclusion/exclusions for application of mark-up or margin computation
- Maintain supporting documentation to explain their rationale including judicial precedents
- TP documentation maintained by the GCC should be consistent with the positions ultimately adopted.



### c) Deemed international transactions



It is common practice for GCCs to enter into arrangements with third party vendors where terms have been negotiated by one of the group companies, based on which goods are supplied or services are rendered to GCC by third party vendors.

As per the ITPRs, the transaction between GCC and third-party vendor may fall within the ambit of 'deemed' international transaction, if:

- A prior agreement exists between GCC group company and third-party vendor; or
- Terms of transaction between GCC and third-party vendor are determined in substance by the group.

### Areas to focus

Analyse transactions with third party vendors in order to identify any deemed international transaction and ensure adequate documentation and related compliances are adhered to, especially considering the stiff prescribed penalties for non-maintenance of the documentation/non-reporting of the same.



## d) Economic Adjustments



India's transfer pricing regulations provide for the use of "reasonably accurate comparability adjustments". These adjustments address differences in accounting practices, working capital cycles, capacity utilization and risk profiles, facilitating a more accurate comparison of profitability and financial data. GCCs typically operate in a low risk bearing or risk mitigated environment, resulting in differences in functions performed, risks assumed and capital levels (like working capital cycles) which often warrant adjustments when selecting comparables, to avoid distorting results, ensuring that intercompany transactions comply with the arm's length principle.

However, there is limited guidance available in the ITPRs i.e. no set methodology for computation. Further, international guidance available in OECD or other international literature are not binding on the IRA.

### Areas to focus



Claim of comparability/economic adjustments should be supported by evidence and detailed explanation around assumptions and methodology adopted for computation of adjustment.

## e) Interest on delayed receivables



In case of excessive credit period allowed to related parties and delay in realization of sales proceeds from related parties as compared to third parties, the IRA alleges that the Indian GCC is passing the benefits of prolonged credit to its related party. Accordingly, an adjustment should be made in respect of excess credit allowed to related party debtors by charging notional interest from related parties on excess amount outstanding.

### Areas to focus



- Endeavor to receive the payment within credit period
- Maintain reasons business/commercial for any delay in receipt of payment
- Evaluate if similar situation would also prevail in case of similar arrangement in an unrelated scenario.

## 3.4 Global mobility

### a) Expatriate outbound/inbound assignments



An expatriate (international) assignment involves relocating an employee from one country to another to work for a specified period of time. These assignments are often part of a company's global expansion or talent development strategy.

The number of expatriates employed by multinational corporates for short/long-term assignments in India has significantly increased. This trend continues to grow as companies seek global talent for their operations in the country. Further, the past few years have witnessed many more GCCs deputing their employees to their overseas operations.

When an employee moves to another country for work, they might have to pay income tax in both their home country and the country where they are working. Taxation in India is based on the residential status of a person and not on citizenship. Residential status under Indian tax laws is determined solely based on his or her physical presence in India regardless of the purpose of stay. Social security contributions and other benefits may also be affected by international work arrangements.

There is enhanced vigilance by tax authorities in India and overseas. The complexities in the tax systems result in higher tax costs, compliance issues and double taxation issues in relation to outbound/inbound assignees that need resolution.

The ability to seamlessly move employees across borders — whether they are expatriates, business travelers, or permanently relocating — can be severely hindered by shifting political landscapes, restrictive visa policies (including for working spouses), extreme pandemic lockdown measures and sudden border closures. Companies may need to adjust their strategies to attract and retain talent in areas affected by geopolitical events, as employees may be concerned about job security and safety.<sup>7</sup>

#### Areas to focus



Managing global mobility tax correctly helps businesses avoid financial penalties and ensures that employees do not face unexpected tax liabilities.

### b) Work from anywhere



Work from Anywhere is one of the trending topics in today's workplace environment post the pandemic. From an India perspective, one needs to evaluate significant complexities from personal tax, social security and immigration compliance. The same is briefly outlined below.

#### 1. Personal tax

An individual's residential status determines their tax liability in India. Remote working may trigger tax obligations both in India and outside India, depending on duration and location of the remote worker. Income for services rendered in India is taxable regardless of residential status or payment source. DTAA's may offer relief in case of double taxation. Tax compliance includes return filing, advance tax, TDS, PE risk assessment, etc.

#### 2. Social Security

Generally, employees working remotely from India for MNC, without any connection to an Indian establishment, are not subject to EPF obligations. However, if the employee is associated with a GCC or Indian entity, EPF may apply, requiring evaluation of international worker provisions and potentially a Certificate of Coverage (CoC) for exemption from EPF contributions in India. While India does not have specific labour laws governing remote work, employers are still required to comply with existing labour laws, including timely wage payments, adherence to working hours and social security contributions to schemes such as EPF and ESI (if applicable)

7. Top geopolitical risks 2025, KPMG, March 2025

### 3. Immigration

While Indian citizens and OCI cardholders do not require an Indian visa, foreign nationals working remotely from India must hold a visa appropriate to their activities. Similarly, Indian employees working overseas must comply with host country visa rules. Though many countries offer digital nomad visas, India currently does not.

### 4. GST registration

The companies employing a remote working arrangement may be required to analyse whether such remote arrangement or residential location of the employees could be treated as fixed establishment or not and therefore, trigger requirement of GST registration at such locations.

#### Areas to focus



Work from anywhere arrangements may trigger corporate tax, transfer pricing and indirect tax implications - thus proper planning should be carried out before implementation.

# 4.

# Dispute resolution mechanism for transfer pricing disputes

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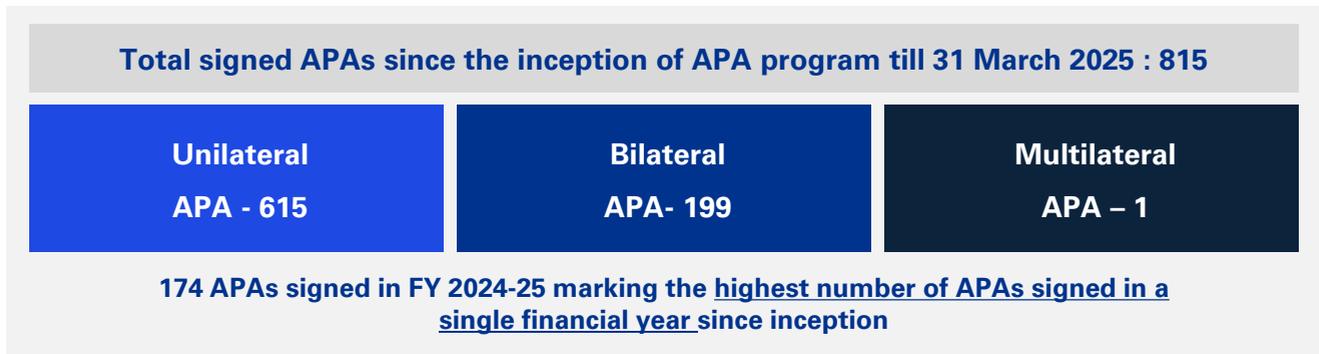
Over the years, India has witnessed huge litigation in the GCC sector, wherein MNCs were subjected to transfer pricing additions. Currently, most of the TP disputes are routinely carried from the field audits levels, i.e. from the Transfer Pricing Officers, to the Dispute Resolution Panels (DRP)s or the Commissioner of Income-tax (Appeals) (CIT(A)) leading to the Income-tax Appellate Tribunal. While the Act does prescribe a mandatory time limit for completion of TP audits (after being through the DRPs appeal route), no such time limit has been prescribed for completion of appellate proceedings before the CIT(A) or subsequent appellate proceedings [i.e. post DRP or CIT(A)] before the Tribunal, High Courts and the Supreme Court. Further, IRAs at the field audit level have routinely made adjustments for each of the subsequent years leading to multiplicity of cases for taxpayers suffering year-on-year adjustments and resulting a huge backlog in the tribunal and courts. On the other hand, in cases where the taxpayer receives favorable judgements, the IRA have been filing appeals against the said favorable judgements. This has resulted in taxpayers carrying a large burden of uncertain tax positions.

To address these challenges, India offers alternate/proactive dispute resolution mechanisms such as Advance Pricing Agreements (APAs), Mutual Agreement Procedures (MAP) and Safe Harbour (SH) Rules. This section provides a detailed explanation of these mechanisms:

Advance Pricing Agreement	Safe Harbour rules	Mutual Agreement Procedure
<p>An APA is an agreement between the tax authorities and the taxpayer that determines in advance the most appropriate TP methodology or arm’s length price (‘ALP’) for the covered intercompany international transactions. Since its inception in July 2012, it has brought greater certainty in these taxing times by stemming the tide of growing controversies and long drawn litigation. The Indian TP regulations provide the option of unilateral/ bilateral/ multilateral APAs with optional pre-filing consultations. APA application can be filed for a maximum period of five consecutive financial years and can be renewed thereafter for five additional years. Taxpayers also have an option to exercise rollback provisions for up to four financial years preceding the first year covered under the APA.</p>	<p>The Finance Act, 2009, had introduced SH provisions under TP regulations with a view to reduce litigation. The operative Rules were notified in September 2013. SH is defined to mean circumstances in which the income tax authorities shall accept the transfer price declared by the taxpayer subject to fulfilment of certain prescribed conditions. This does not provide tax certainty for future years unlike in APA.</p> <p>Some of the key transactions for GCCs covered under SH are the following:</p> <ul style="list-style-type: none"> <li>• Software development</li> <li>• IT enabled services</li> <li>• Knowledge process outsourcing services</li> <li>• Contract R&amp;D services in software and pharmaceuticals.</li> </ul>	<p>A major risk international business transactions face is potential double taxation by multiple tax authorities. Most tax treaties negotiated between countries provide a mechanism to avoid double taxation. The MAP is an alternative mechanism for the resolution of international tax and transfer pricing disputes. Multinationals can file a MAP application requesting the relevant fiscal authorities to resolve disputes concerning double taxation.</p>

Out of the above three dispute resolution mechanisms, the APA program has been a roaring success till date. The APA route has been preferred as it calls for lesser annual compliance requirements and determination of the agreed transfer pricing policy and the option of converting to a bilateral APA route to avoid any economic double taxation for the multinational Group.

**Statistics of APA signed with Central Board of Direct Taxes (CBDT)<sup>8</sup>**



As per the CBDT’s APA program Annual Report 2023-24, a majority of the UAPAs pertain to the I-T industry, banking and insurance, engineering services, telecommunication and power and energy. This report highlights that India is a major outsourcing destination for information technology and business processes and significant number of foreign MNCs have presence in I-T clusters of India such as Bengaluru, Hyderabad, Chennai, Gurgaon and Noida. Further, majority of the APAs signed up till FY 2023-24, are captive companies involved in software development and IT enabled services. Some of these companies are also involved in engineering design services, contract R&D services and Knowledge Process Outsourcing (KPO).<sup>9</sup>

8. CBDT Press Release dated 31 March 2025

9. CBDT APA programme Annual report 2023-24, November 2024



# 5.

# Tax Center of Excellence

# 5. Tax Center of Excellence

A Center of Excellence (CoE) is a team or entity focused on specific expertise, often within a GCC, to drive innovation and improvement in a particular area. GCCs can act as CoEs, leveraging their specialised talent and resources to establish and manage these focused units. In essence, GCCs provide the structure and resources, while CoEs provide the specialised expertise to drive innovation and efficiency within an organisation.

In recent past, MNCs have started centralising their functions particularly in the area of tax and have established tax CoEs. A tax COE is a centralized unit within a group that focuses exclusively on managing and optimising tax- related activities across regions or business units. These tax CoEs serve as a hub for:

- Standardizing tax policies, processes and technologies
- Centralising expertise in areas like direct tax, indirect tax (GST/VAT), transfer pricing, international tax and regulatory matters
- Supporting local tax teams of the global enterprise with technical guidance and oversight
- Managing tax risk, governance and compliance globally or across regions.

## Advantages of establishing a Tax CoE in India

<b>Centralization of expertise</b>	<ul style="list-style-type: none"> <li>• Brings together tax professionals with specialised knowledge in various areas such as corporate tax, indirect tax, transfer pricing and international tax</li> <li>• This centralization ensures consistent application of tax policies across jurisdictions.</li> </ul>
<b>Knowledge repository</b>	<ul style="list-style-type: none"> <li>• Maintains a centralized database of tax rulings, interpretations and best practices</li> </ul>
<b>Process optimisation</b>	<ul style="list-style-type: none"> <li>• By standardizing and automating tax processes, a tax CoE can improve efficiency and reduce the likelihood of errors or duplication</li> <li>• Seamlessly connects with ERP systems and tax engines</li> <li>• Implementing advanced technologies like tax software and data analytics tools to automate routine tasks like data reconciliation and tax return preparation.</li> </ul>
<b>Compliance and risk management</b>	<ul style="list-style-type: none"> <li>• Ensures that the organisation adheres to local and international tax regulations, minimizing the risk of non-compliance and associated penalties</li> <li>• Make use of data analytics to detect anomalies or any potential tax audit triggers</li> <li>• Tracks global tax law changes and ensures timely compliance</li> </ul>
<b>Strategic tax planning and cost efficiency</b>	<ul style="list-style-type: none"> <li>• Plays a crucial role in developing tax strategies that align with the organization's overall business objectives, helping to optimise tax liabilities and enhance financial performance</li> <li>• Minimizes penalties, interest and overpayments through planning and accurate and timely filings.</li> </ul>

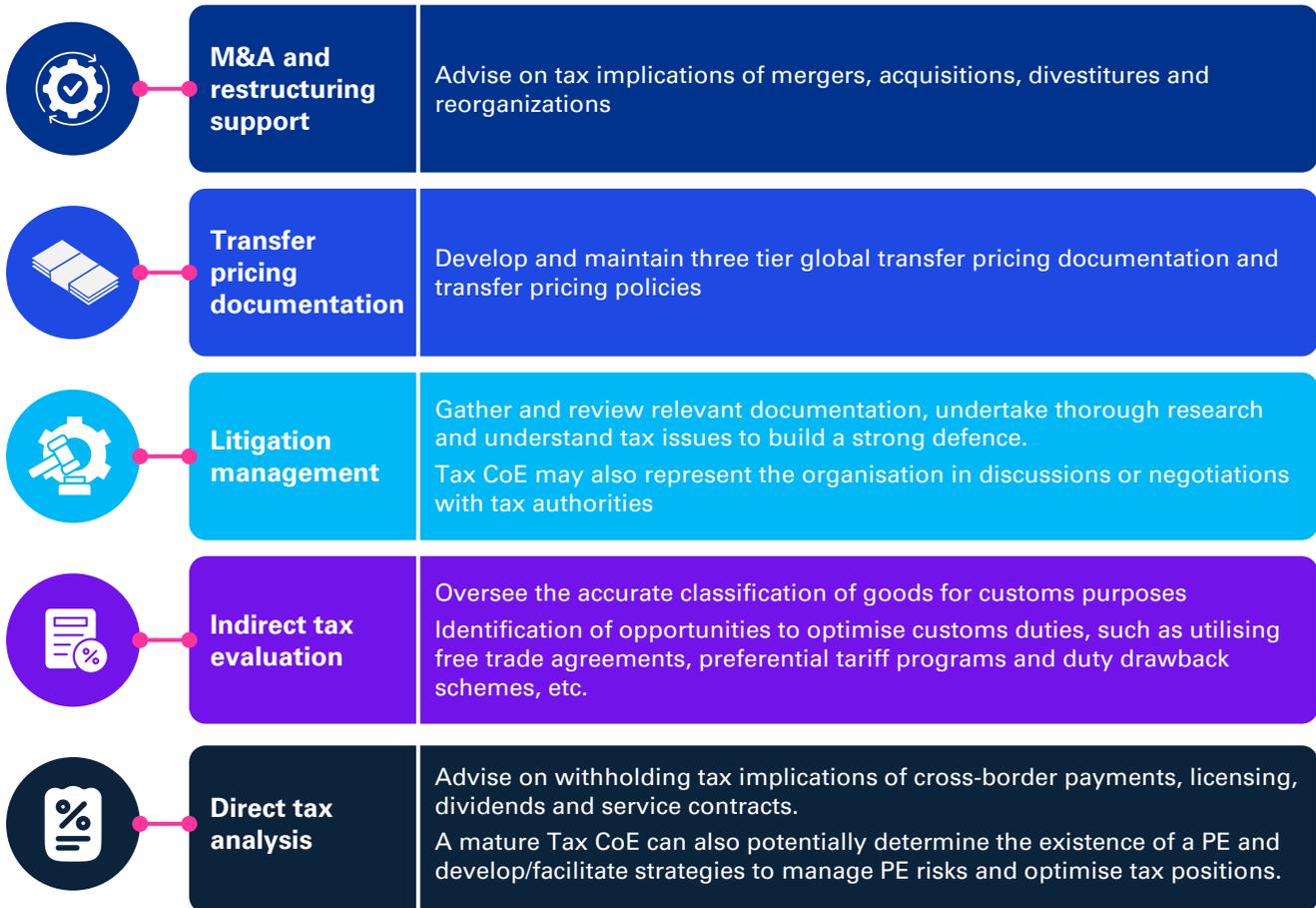
These factors contribute to enhanced tax management, compliance and strategic planning, ultimately driving value for organisations operating in a complex global tax environment.

## Maturity and scalability of tax CoE

The role of tax CoEs is evolving from compliance-focused functions to strategic advisory roles. CoEs are increasingly expected to provide insights that drive business strategy, optimise tax positions and support financial planning. This shift requires CoEs to develop deeper expertise in international tax laws and maintain a forward-looking approach to anticipate future trends and opportunities.

Some of the functions undertaken by a mature tax CoE include:

### Functions of a mature Tax CoE



## Tax CoE and tax transformation

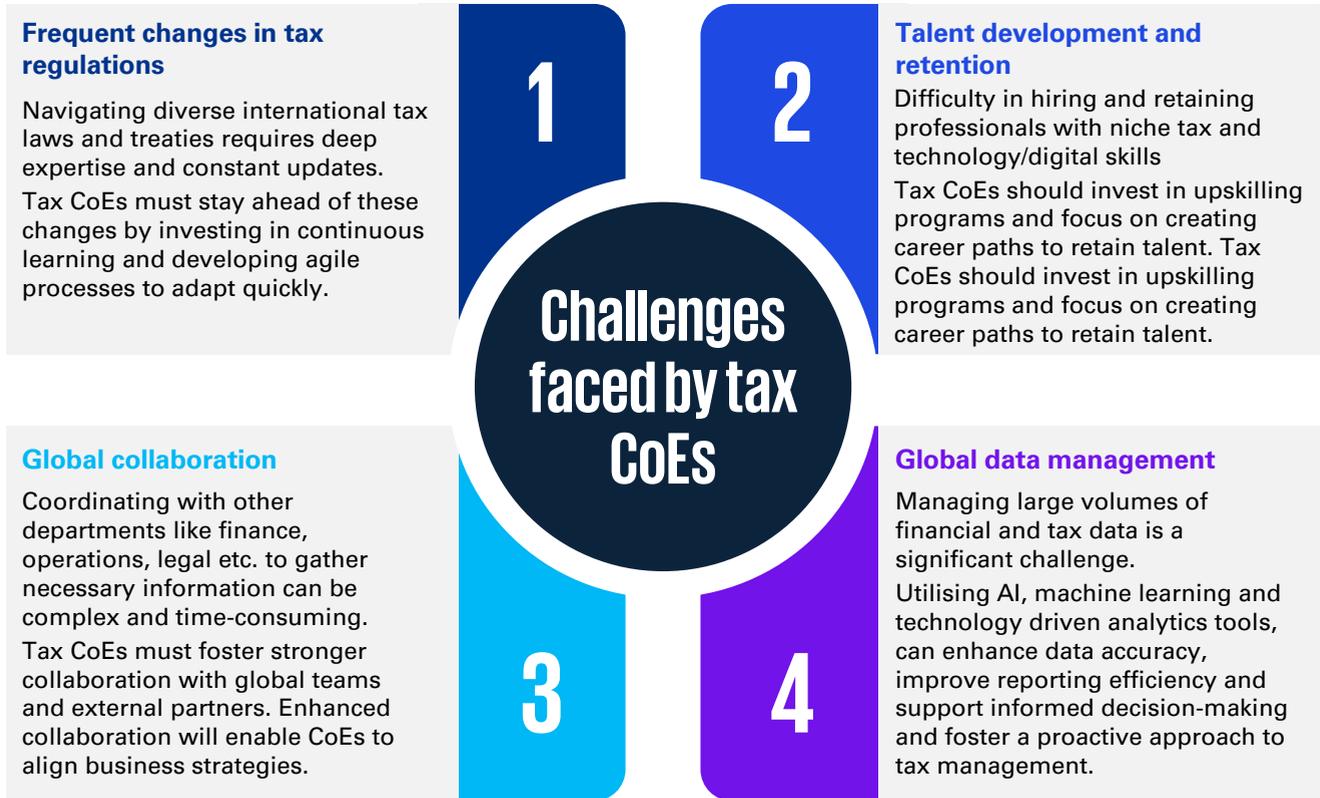
The global tax function is characterized by multi-jurisdictional compliance, different data structures in each jurisdiction, tax uncertainty, evolving government policies and the ever changing global tax rules. For e.g. under the BEPS Pillar Two Global Anti-Base Erosion (GloBE) Rules, MNCs with consolidated turnover exceeding EUR750 million are required to pay the above minimum tax in each jurisdiction where they operate. Another example are the uncertainties of applicable tariffs due to the recent U.S. tariff measures.

In addition to the above, in most cases, the data management, collation and reporting appear to be more reactionary to data requests by the taxing authorities and in many cases such a reactionary stance can substantially impact the ability of an enterprise to obtain optimal tax outcomes.

A tax CoE GCC can be matured to mitigate some of the above challenges and can be purposed with activities that are crucial to manage these risks. Besides, the tax CoE GCC can also drive global technology adoption for the tax function and also help in running the managed services model, if adopted by the overseas parent, by acting as the project management office and interfacing with internal and external stakeholders.

## Challenges faced by Tax CoEs

A Tax CoE faces several challenges as it strives to optimise tax functions and support strategic business objectives. Some are illustrated below:



By proactively addressing these challenges with strategic planning, effective communication and the right technology, organisations can maximize the effectiveness of their tax CoE and achieve their tax management objectives.



**6.**

# **Tax technology tools and interventions**



# 6. Tax technology tools and interventions

As India's tax administration evolves into a more digital framework, corporations need to embrace technology-driven tax processes to boost efficiency and mitigate risks. GCCs can significantly transform global tax operations by utilising advanced tools and automation. Tax technology provides real-time oversight of compliance and litigation, while digitizing core functions reduces human error.

## Areas where tax technology can be implemented

### Tax reconciliations

Global MNCs are increasingly adopting solutions like generative AI and data analytics to automate tasks such as TDS reconciliation and tax audit report clause mapping, GST related reconciliations, E-invoicing and Invoice Management System capabilities enhancing accuracy and productivity.



### Evidence gathering

Intra group payments are being increasingly scrutinized by IRAs. The automation tool can assist in gathering evidence from various machines to substantiate the receipt of support/services.



### Tax data repository

Centralized data management, which can streamline litigation and compliance processes by consolidating information into a single hub. Automation tools can also be employed to efficiently track and manage tax notices and communications, reducing the risk of oversight.



### Tax deduction and tax provisioning

Integrating tax deduction processes within ERP systems ensures seamless operations and minimizes manual intervention. Automating year-end tax provisions can further reduce manual workload and enhance precision.



The integration of AI into tax-related tasks offers opportunities for advanced data analysis and decision-making support. By embracing these technological interventions, GCCs can enhance their tax operations and remain compliant in an increasingly complex regulatory environment.



**7.**

# **Navigating the road ahead**

# 7. Navigating the road ahead

GCCs have firmly established themselves as transformative forces in the international tax arena. Their deep expertise, technological prowess and cost efficiencies empower multinational corporations to effectively manage the intricacies of global taxation.

As businesses confront the evolving challenges of tax reform, digital disruption and globalization, GCCs are expected to continue to lead the way in tax innovation—offering strategic insights and robust support to help organisations succeed in a fast-changing environment.

Looking forward, the evolution of global tax functions could hinge on how well companies harness the strengths of GCCs to foster innovation and maintain a competitive edge. It is our aspiration that this publication serves as a comprehensive and authoritative guide for tax professionals, business leaders and stakeholders across the GCC—enabling them to navigate the complexities of the region with assurance and to strategically leverage the opportunities presented by its dynamic and evolving landscape.



# 8.

# Abbreviations

# 8. Abbreviations

Abbreviation	Full Form	Abbreviation	Full Form
<b>AI</b>	Artificial intelligence	<b>IFSC</b>	International Financial Services Centers
<b>APA</b>	Advance Pricing Agreement	<b>IRA</b>	Indian Revenue Authority
<b>CBDT</b>	Central Board of Direct Taxes	<b>ITC</b>	Input Tax Credit
<b>CIT(A)</b>	Commissioner of Income Tax (Appeals)	<b>ITPR</b>	Indian Transfer Pricing Regulations
<b>CoE</b>	Center of Excellence	<b>MeitY</b>	Ministry of electronics and information technology
<b>DRP</b>	Dispute Resolution Panel	<b>ML</b>	Machine learning
<b>DTA</b>	Domestic Tariff Area	<b>MNC</b>	Multinational Corporation
<b>DTAA</b>	Double Taxation Avoidance Agreement	<b>OCI</b>	Overseas Citizenship of India
<b>EOU</b>	Export Oriented Undertaking	<b>OECD</b>	The Organisation for Economic Co-operation and Development
<b>ESOP</b>	Employee Stock Option Plan	<b>PE</b>	Permanent Establishment
<b>FAR</b>	Functions, Assets and Risk	<b>POEM</b>	Place of effective management
<b>FS</b>	Financial services	<b>R&amp;D</b>	Research and Development
<b>FY</b>	Financial Year	<b>SEZ</b>	Special Economic Zone
<b>GCC</b>	Global Capability centers	<b>STPI</b>	Software Technology Parks of India
<b>GIC</b>	Global In-House Centers	<b>TDS</b>	Tax Deducted at Source
<b>GIFT City</b>	Gujarat International Finance Tec-City	<b>WHT</b>	Withholding Tax
<b>GST</b>	Goods and Services Tax	<b>WOS</b>	Wholly owned subsidiary

# KPMG in India contacts:

**Akhilesh Tuteja**  
Head – Client and Markets  
E: [atuteja@kpmg.com](mailto:atuteja@kpmg.com)

**Sunil Badala**  
National Head of Tax  
E: [sunilbadala@kpmg.com](mailto:sunilbadala@kpmg.com)

**Ajay Mehra**  
Partner and Head  
Tax Markets and Strategy  
E: [ajaymehra@kpmg.com](mailto:ajaymehra@kpmg.com)

**Shalini Pillay**  
Partner and Head – Global Capability Centres  
E: [shalinipillay@kpmg.com](mailto:shalinipillay@kpmg.com)

[kpmg.com/in](https://kpmg.com/in)



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KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai – 400 011 Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.

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