



Benchmarking two international Transactions included in one another

By: Vivek Jalan

FCA, LL.M (Constitutional Law), LL. B, MBA (International Trade), B. Com (H)

Team Tax Connect

Consider the situation – An assessee subject to Transfer Pricing pays its AE for “provision of basic market research and testing services”. Further it also pays “infrastructure services fees and reimbursement of expenses” separately. However, actually this “infrastructure services fees and reimbursement of expenses” is also as a part of “basic market research and testing services”. The TP officer accepts the expenditure for “basic market research and testing services” to AE but disputes “infrastructure services fees and reimbursement of expenses”. The question is “Is the approach incorrect by segregating the transactions related to the “payment of infrastructure fee” and the “reimbursement of expenses paid to Associated Enterprises (AEs) for employee salary costs” and subjecting them to separate adjustments, while such transactions are already factored in the cost base used for charging the AE for the international transaction involving “provision of basic market research & testing services” which has been determined to be at arm's length, by the Ld. AO / TPO himself in the impugned order itself.”

Here the answer is in the negative for the assessee. It is a fact that assessee has carried out two international transactions i.e. infrastructure services fees and reimbursement made to the AE and they have to be benchmarked by verification of various documents whether the allocation of expenditures by the AE are as per the norms and reasonableness whether the third party documents are submitted and on what basis these are allocated to the assessee. There is no duplication in this exercise as was held in HONDA R & D (INDIA) PRIVATE LIMITED Vs DCIT, CIRCLE 10(1), DELHI [2025-VIL-1486-ITAT-DEL].

Let us now understand by a more common example- "the transactions related to the "purchase of goods" and the "royalty" paid to Associated Enterprises (AEs) are subject to separate adjustments, while royalty is already factored in the cost base used for charging the AE for the international transaction involving "purchase of goods" which has been determined to be at arm's length, by the Ld. AO / TPO. The following is a numerical presentation –

Particulars	Amt	Remarks
Cost of goods purchased by Indian Enterprise (IE) from Foreign Associated Enterprise (AE)	Rs.100/-	AO does not dispute
Royalty Paid	Rs.2/-	AO disputes
Total Payment by IE to AE	Rs.102/-	AO does not dispute
Comparable Uncontrolled Price (CUP)	Rs.105/-	

LET'S DISCUSS FURTHER!

OUR OFFICES:

MUMBAI

Unit No. 312, Omega Business Park, Near Kaamgar Hospital, Road No. 33, Wagle Industrial Estate, Thane West, Maharashtra- 400604

Contact Person:
Prashant Kumar Jha

Email:
prashant.jha@taxconnect.co.in

BENGALURU

951, 24th Main Road, J P Nagar, Bengaluru, Karnataka – 560078.

Contact Person:
Anil Pal

Email:
anil.pal@taxconnectdelhi.co.in

DELHI

B-139, 2nd Floor, Transport Nagar, Noida-201301 (U.P)

Contact Person:
Poonam Khemka

Email:
poonam.khemka@taxconnect.co.in

KOLKATA

6, Netaji Subhas Road, 3rd Floor, Royal Exchange Building, Kolkata – 700001

Contact Person:
Sandeep Mandal

Email:
sandeep.mandal@taxconnect.co.in

KOLKATA

R No 119; 1st Floor; Diamond Arcade; 1/72, Cal Jessore Road, Kolkata – 700055

Contact Person:
Uttam Kumar Singh

Email:
uttam.singh@taxconnect.co.in

DUBAI

Azizi Feirouz, 803, 8th Floor, AL Furjan, Opposite Discovery Pavillion, Dubai, UAE

Contact Person:
Rohit Sharma

Email:
rohit.sharma@taxconnect.co.in

Disclaimer:

This publication is for private circulation only. Views expressed herein are of the Tax Connect team and are based on the information, explanation, and documents available on Government portal platforms. Tax Connect or any of its employees do not accept any liability whatsoever direct or indirect that may arise from the use of the information contained herein. No matter contained herein may be reproduced without prior consent of Tax Connect. While this e-article has been prepared based on published/other publicly available information considered reliable, we do not accept any liability for the accuracy of its contents.