Indian Economy · GS - III

“Transfer-pricing regulations are essential for protecting the domestic tax base in an increasingly digital and globalised economy, but disputes can create uncertainty for multinational enterprises.” Discuss.

EXAM YEAR	PAPER	SUBJECT
Daily Practice 19/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Explain transfer pricing, the arm's-length principle, profit shifting and revenue protection. Discuss double taxation, valuation disputes, compliance costs and delays. Suggest transparent rules, advance agreements and bilateral dispute resolution.

Model Answer

Transfer pricing refers to prices charged in transactions between associated enterprises of a multinational company. Since related entities operate across tax jurisdictions, the pricing of services, intellectual property and other transactions affects the allocation of taxable profits.

The arm's-length principle requires related-party transactions to reflect conditions comparable to those between independent enterprises. Transfer-pricing regulations help prevent artificial profit shifting, protect domestic revenue and promote fairness between multinational and domestic businesses.

However, disputes may arise over the economic value of intellectual property, the contribution of local operations and the appropriate pricing method. These disputes can create uncertainty, increase compliance costs and expose companies to prolonged litigation or double taxation.

India should strengthen the transparency and consistency of transfer-pricing assessments, improve access to advance pricing agreements and promote the Mutual Agreement Procedure under applicable tax treaties. Better

coordination between tax authorities can reduce disputes while protecting revenue.

Thus, effective transfer-pricing rules must balance tax integrity, legal certainty and a predictable investment environment.

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