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India GCC tax and regulatory updates

Key updates for finance, tax and GCC leadership

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Executive summary

India's global capability centre (GCC) ecosystem has moved decisively from scale-led delivery to enterprise value creation. The opportunity is expanding, but so is the need for finance, tax, legal and HR teams to align operating models, documentation and systems with the substance of activities performed in India. This quick read summarises five key developments and the decisions that leadership teams should prioritise.



More than 2,000
GCCs in India in FY26

More than 2.3 million
professionals employed

More than USD 100 billion
ecosystem revenue

More than 1,200
GCCs with embedded artificial intelligence (AI)/machine learning (ML)

Source: Nasscom report

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Executive summary

What matters now: Five key developments in the sector

Transfer pricing certainty	The revised Safe Harbour materially widens access for IT, ITeS, knowledge process organisation (KPO) and qualifying software R&D services. The decision should be based on a five-year tax and commercial model, not the headline margin alone.
Permanent establishment	Substance and actual conduct are increasingly decisive. Global roles, decision rights, parent-company activities from India and agreements that lag business reality are the principal risk signals.
State GCC incentives	Location and expansion choices should factor the net value of incentives after eligibility thresholds, employment and investment commitments, benefit caps, approval timelines and compliance costs.
Labour Code readiness	The impact extends from wage definitions and statutory benefits to worker classification, employment documentation, hybrid work, shifts and multi-state compliance. Cost modelling and system readiness should precede implementation.
GST and working capital	Refunds should be managed as a cash-recovery programme. Export qualification, input tax credits, capital-goods credits, remittance tracking, reverse charge and ERP data quality will determine the speed and sustainability of recovery.

Leadership agenda: Six decisions to prioritise

01 Choose the appropriate transfer pricing certainty route after comparing Safe Harbour, APA and regular benchmarking over a five-year horizon.

02 Run a cross-functional PE review of decision rights, reporting lines, global roles and activities performed for overseas entities.

03 Build state incentive screening into every new centre, expansion, R&D mandate, or material headcount or capital expenditure (capex) decision.

04 Quantify Labour Code exposure across payroll, benefits, workforce categories and operating practices; assign clear implementation ownership.

05 Treat GST refunds and accumulated credits as a working-capital dashboard with ageing, reconciliation and recovery targets.

06 Create a quarterly GCC governance review spanning tax, finance, legal, HR, payroll and business leadership.

Highlight: The common thread across these developments is alignment between legal form and operating substance, growth plans and incentives, payroll design and regulation, tax positions and underlying system data. GCCs that act early can convert regulatory change into greater certainty, lower controversy and better cash recovery.

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India GCC landscape:
Context and key developments

India has emerged as a preferred global hub for GCCs, supported by its talent base, scale, digital capabilities and maturing innovation ecosystem. GCCs have evolved beyond traditional back-office and cost-arbitrage models to own end-to-end processes, product and platform mandates, technology transformation, analytics, AI, R&D, cybersecurity, finance and risk. As a result, they are increasingly accountable for enterprise outcomes, governance and value creation.

This newsletter examines five developments with direct implications for finance, tax and regulatory decision-making: the revised Transfer Pricing Safe Harbour framework, scrutiny of Permanent Establishment risk, state-level GCC incentives, Labour Code readiness and GST refunds. These areas are becoming important as GCCs take on larger global mandates, expand headcount and functions in India, and become more integrated with overseas headquarters.



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01 Transfer Pricing Safe Harbour: A large window for certainty



The revised transfer pricing Safe Harbour framework effective from 1 April 2026 consolidates software development, IT-enabled services, KPO and qualifying software-related contract R&D into a unified "Information Technology Services" category.

For eligible transactions, the annual transaction threshold increased from INR 300 crores (USD 32 million) to INR 2,000 crores (USD 210 million) and the prescribed operating margin is standardised at 15.5% on operating costs. A single initial application allows the option to apply for five consecutive years, subject to the prescribed annual declarations.

These transactions typically cover qualifying intra-group services such as software development, IT-enabled services, KPO and certain contract R&D support in relation to software development, subject to prescribed eligibility criteria, transaction value thresholds and offering prescribed arm's length margins.

Transfer Pricing Safe Harbour framework

Safe Harbour	Eligible GCC services	INR 2,000 crore	15.5% margin / 5-year certainty

Priority actions

- Evaluate eligibility under the revised TP Safe Harbour framework, assess the five-year commercial and tax impact, and file the Safe Harbour application within the prescribed timeline.
- Model the five-year cash-tax and effective-tax-rate impact against the existing TP policy or APA route.
- Strengthen documentation substantiating limited risk business operating model, ensuring cost base is computed appropriately on a fully loaded basis, analysing the impact of any free cost support / assets/services availed from group entities and transaction-level segmentation.

Our point of view: The revised Safe Harbour framework gives eligible GCCs a credible opportunity to secure five-year transfer pricing certainty, reduce recurring audit and litigation exposure, and bring greater predictability to tax costs and management effort. The option should be evaluated as a long-term business decision rather than a simple comparison with the prescribed 15.5% margin.

GCCs should assess whether their actual functions, risk profile and service portfolio meet the eligibility conditions and model the impact on Indian cash tax, group ETR, overseas deductibility and the fully loaded cost base, including group-supported assets and services. Safe Harbour may be particularly attractive for stable, routine operating models where the prescribed outcome is commercially acceptable. For complex, evolving or higher-value GCCs, an APA or regular TP approach may provide a better fit.

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02 Permanent Establishment: Governance must match contractual form



Indian tax authorities have been examining whether the overseas parent's control over an India GCC creates a taxable presence in India.

Recent judicial developments: Recent Indian jurisprudence, particularly the Supreme Court ruling in the Hyatt International case pronounced on 24 July 2025, has reinforced a substance-over-form approach for PE analysis. The ruling indicates that a PE may be alleged even without a formal office or exclusive space where the foreign enterprise exercises control over operations, holds enforcement rights or receives profit-linked fees.

Recent press coverage around GCCs in India has also highlighted increasing tax scrutiny as centres move from routine cost-plus service delivery to high-value activities such as product ownership, analytics, R&D, AI, finance transformation, and strategic decision support. PE questions are now more focused on the operating model, especially where senior Indian personnel have global roles, parent-company activities are performed from India, or intercompany agreements do not reflect actual conduct. Accordingly, PE readiness is becoming a governance topic for finance, tax, legal and business leadership, rather than a narrow technical tax issue.

Risk indicators

- Senior India-based personnel exercising global decision-making authority
- Unclear employer relationships or reporting structures
- Recurring parent-company activities from GCC premises
- Authority over commercial terms
- Intercompany agreements that lag the actual operating model

Priority actions

- Refresh the PE risk assessment based on actual decision-making, reporting lines, authority levels and activities performed from India
- Update delegation matrices and do's and don'ts protocols for India leadership, global role holders and client-facing teams
- Align intercompany agreements, transfer pricing characterisation, board records and management documentation with the actual operating model
- Model potential profit attribution, withholding and cash-tax exposure under key PE allegation scenarios

Our point of view: PE risk for GCCs is increasingly driven by actual conduct rather than contractual language.

PE exposure is heightened where India-based personnel habitually negotiate or influence contracts, exercise decision-making authority for the overseas entity, or perform core revenue-generating functions. A periodic, cross-functional review of decision rights, global roles and parent-company activities performed from India is therefore critical.

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03 State GCC policies: Make incentives part of expansion decisions



The policy push around GCCs has become increasingly state-led, with governments competing to attract new centres, expansions and high-value mandates through targeted fiscal and non-fiscal incentives. For finance and tax teams, the key is to move beyond headline incentives and evaluate each location based on actual eligibility, approval process, investment or employment commitments, operating timelines and post-approval compliance obligations.

In terms of policy maturity, Karnataka, Andhra Pradesh, Uttar Pradesh, Maharashtra, Madhya Pradesh, and Tamil Nadu are more advanced, with GCC policies already announced and implemented. Gujarat, Haryana, and Rajasthan have announced final policies, but implementation guidelines are awaited. Odisha, West Bengal, and Kerala are developing their GCC propositions through draft policies released for stakeholder consultation.

The Central Government is also considering a GCC policy framework to provide common guidance to states and support a more coordinated enabling ecosystem.

Priority actions

- Evaluate state-level GCC incentives early in any new location, satellite centre or expansion decision, rather than after the operating model is finalised
- Test whether incremental headcount, capex, R&D activity or a new facility can qualify for incentives, including in states where the GCC already operates
- Prepare a state-wise benefit model covering fiscal incentives, talent availability, real estate costs, connectivity, approval timelines, and operating-risk factors
- Track eligibility conditions, approvals, employment and investment commitments, documentation, claim timelines and post-approval compliance from day one

Our point of view: GCCs should compare states on the net value of incentives after factoring in eligibility thresholds, incremental investment and employment commitments, approval timelines, benefit caps, and ongoing compliance costs. Existing GCCs should also test whether a new facility, expansion or higher-value mandate can be efficiently structured as a qualifying project.

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04 Labour Codes: Translate legal change into payroll and HR readiness



The four labour codes consolidate the central framework across wages, industrial relations, social security, occupational safety, and working conditions. For GCCs, the immediate management question is how the revised rules and applicable state requirements affect compensation structures, statutory benefits, employment documentation, and workplace compliance.

The codes are not merely a legal consolidation exercise. They can materially change how employment cost, workforce classification and compliance ownership are viewed. A key area of focus is the revised definition of “wages, which may affect the base for provident fund, gratuity, bonus, leave encashment and other statutory benefits while salary structures rely heavily on allowances or exclusions.

For India GCCs, the impact also extends beyond payroll to operating practices. GCCs with large employee bases, rapid hiring plans or variable compensation models should assess whether historical pay structures remain efficient and compliant with the new labour codes in place. In addition, hybrid work, night shifts, multi-state employees, contract labour, consultants, apprentices, fixed-term employees, and vendor personnel may each require a separate review.

Priority actions

- Review salary structures, including methodology for calculation of provident fund (PF), gratuity, bonus, leave encashment, overtime, full-and-final settlement
- Review HR and payroll policies and processes regarding operational areas such as leave, working hours practices, overtime, full-and-final settlement, deduction from wages
- Review employment and third-party contracts to validate treatment of regular employees, contract labour, consultants, fixed-term employees, apprentices, and independent contractors, including classification as a worker or employee
- Prepare for compliance readiness for the new Labour Codes regime in terms of additional registrations, new formats for registers, appointment letters, wage slips, standing orders

Our point of view: Labour Code readiness should be treated as a coordinated payroll, HR, legal and finance programme. GCCs should quantify the cost impact early and use the transition to standardise workforce classifications, policies, and compliance processes across locations.

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05 Indirect taxes: Structure cash flows around input tax credits and refunds



Refunds as a working-capital lever: GCCs operate on a cost-plus model and export most of their services, which leads to a steady build-up of unutilised GST credits that can be claimed as refunds. Because there is a long gap between paying GST to vendors and receiving the refund in the bank, GCCs should review their procurement pattern to separate eligible credits from blocked credits, including credits on capital goods. They should also assess the appropriate refund route: export without payment of tax under a letter of undertaking (LUT), or export on payment of integrated GST (IGST), to maximise the amount refunded.

Removal of the intermediary provision: The intermediary clause has been deleted prospectively from April 2026. GCCs providing support or facilitation services to overseas group entities, which tax authorities had often disputed, can now treat such services as exports, and include them in refund claims. Positions for earlier periods should continue to be defended.

Receipt of export proceeds: Export of services qualifies as a zero-rated supply only if, among other conditions, the consideration is received in convertible foreign exchange (or in Indian rupees where permitted by the Reserve Bank of India (RBI)). GCCs should, therefore, make sure export proceeds are received within the timelines allowed by RBI to avoid a demand for tax and interest.

Services received from overseas group entities: Services received by a GCC from its parent or other overseas group entities are treated as a supply even without consideration, and GST is payable under reverse charge. Where the GCC is eligible for full input tax credit, the value declared in the invoice is accepted as the open market value. GST paid on such services is available as credit and can be included in the refund claim as unutilised input tax credit.



57th GST Council meeting (8 October 2026): What it means for GCCs

The 57th GST Council focused on process reforms rather than rate changes. Several recommendations directly address long-standing concerns of GCCs on export qualification, refunds, and input tax credits. These will take effect only once the relevant law amendments, rules and circulars are notified.

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Council recommendation	Our point of view for GCCs
Export of services to own overseas establishments Condition that the supplier and recipient should not be establishments of a distinct person [Section 2(6)(v), IGST Act] proposed to be omitted.	This removes a key barrier for GCCs operating as Indian branches of foreign companies and for services billed to overseas branches of the group. Such services could qualify as exports and become eligible for refund. Until the amendment is notified, existing positions should be documented and past-period exposure assessed.
Services on goods made available by overseas recipients Section 13(3)(a), IGST Act proposed to be omitted, so that place of supply follows the location of the recipient.	Engineering, R&D and testing GCCs working on prototypes, devices or hardware sent by the parent could treat such services as exports. Current tax positions and refund claims for these service lines should be reassessed.
Receipt of export proceeds Circular proposed to clarify receipt of export proceeds in foreign exchange, or in Indian rupees wherever permitted by RBI.	This expected to reduce disputes on modes of settlement. GCCs should continue to maintain an invoice-wise trail of inward remittances, particularly where group settlement arrangements are followed.
Faster, system-based refunds Phase 1: automatic provisional sanction of 90% of zero-rated refund claims based on system risk evaluation; acknowledgement within 10 days; otherwise, it is deemed acknowledged; RFD-01 in system-readable format without scanned documents. Phase 2: fully automated sanction of zero-rated refunds.	This could materially reduce refund turnaround times. Since access to the automated route depends on system risk scoring, clean and matched data across GSTR-1, GSTR-3B, GSTR-2B and export remittances becomes the key differentiator.
Refund of ITC on capital goods Refund of accumulated ITC on capital goods for zero-rated supplies, for ITC availed on or after 1 April 2027, spread over 60 months.	Significant for new and expanding GCCs with large fit-out, IT hardware and infrastructure spend, where such credits currently remain locked. Timing of capex around 1 April 2027 and separate tracking of capital goods credits by date of availment should be planned now subject to business requirements.
Wider ITC eligibility [Section 17(5)] Restrictions proposed to be removed for health and life insurance, outdoor catering, and other specified items.	As GCCs are headcount-intensive, they incur substantial spend on employee insurance and cafeteria/catering. Once notified, these credits could add to the refundable ITC pool and reduce the cost base. Vendor invoicing and ITC tagging should be aligned accordingly.
Returns, RCM and e-invoicing Statutory backing for IMS, an electronic RCM statement (Rule 86D) and an ITC reversal/reclaim statement, with the revised return mechanism from the April 2027 return period. E-invoicing extended to import of services for turnover of INR 5 crore and above.	GCCs paying GST under reverse charge on cross-charges, secondments and overseas subscriptions would need ERP and process changes for self-invoicing and RCM reporting. Early system readiness will avoid mismatches that could otherwise delay refunds.
Registration Amendments to registration particulars, other than the principal place of business, to be accepted automatically.	This would make adding new floors or additional places of business during expansion quicker. It also helps time-bound filings under STPI, SEZ and state GCC policies.
Litigation and enforcement No show-cause notice below INR 10,000; a reduced 5% penalty in non-fraud cases on timely payment; an opportunity to object and be heard before blocking of credit ledger under Rule 86A; withdrawal of arrest powers; prosecution threshold raised to INR 5 crore; standard guidelines for notices and orders.	This could lower litigation risk for compliant GCCs. The right to a hearing before credit blocking is particularly relevant for refund claimants whose credit ledger may be blocked during scrutiny.

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05 Indirect taxes: Structure cash flows around input tax credits and refunds



Priority actions

- Review procurement and input tax credits, including eligible, blocked and capital goods credits, with robust vendor reconciliations.
- Monitor timely receipt of export proceeds and review overseas related-party services for GST valuation, payment and credit implication.
- Evaluate the optimal export refund route, with or without payment of GST, and streamline refund filings.
- Map the 57th GST Council changes to existing positions, including export qualification for branch and goods-related services, capital-goods refunds from April 2027 and newly eligible credits.
- Reassess export-of-service positions and refund eligibility following removal of the intermediary provision.
- Prepare enterprise resource planning (ERP) and compliance processes for invoice management system (IMS), reverse charge mechanism (RCM) statements and e-invoicing.

Our point of view: GST refunds should be managed as a working-capital priority rather than a periodic compliance exercise. A structured review of credits, refund routes, export proceeds and related-party services can accelerate cash recovery and reduce litigation exposure. The 57th GST Council recommendations strengthen this case, as faster system-driven refunds and wider export and credit eligibility will benefit GCCs that keep their data clean and their positions well documented.

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Conclusion

Taken together, these developments indicate that GCCs in India need a more integrated readiness agenda across transfer pricing, PE governance, incentives, labour compliance, and GST refunds. The immediate focus should be to convert each update into practical operating actions supported by clear documentation, ownership, and periodic management review.



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Acknowledgements

Contact us:



Kalyan Kumar K

Partner, Tax Planning
and Optimisation
Grant Thornton Bharat
E: Kalyan.Kumar@IN.GT.COM

For media enquiries, write to **media@in.gt.com**

Notes:

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