

India's 2025-2026 Transfer Pricing Reforms: Tax Certainty, Prevention and Development in Emerging Economies

Mamta Bhawanishanker Khandelwal ^{*1}; Dr. Farhat Khan²

¹PhD Research Scholar G.H. Rasoni University, Saikheda, Madhya Pradesh, India

Email ID: mamta.khandelwal.law@ghru.edu.in

²G.H. Rasoni University, Saikheda, Madhya Pradesh, India

Email ID: farhat.khan@ghru.edu.in

***Corresponding Author**

Mamta Bhawanishanker Khandelwal

¹PhD Research Scholar G.H. Rasoni University, Saikheda, Madhya Pradesh, India

Email ID: mamta.khandelwal.law@ghru.edu.in

ABSTRACT

Transfer pricing remains one of the most contentious areas of international taxation, particularly in emerging economies where institutional capacity, information asymmetry and aggressive enforcement have historically generated high compliance costs and prolonged disputes. This article conducts a systematic literature review of India's 2025-2026 transfer pricing reforms, which represent a deliberate policy pivot from an enforcement-centric model toward a prevention-oriented framework anchored in expanded Safe Harbour rules and accelerated Advance Pricing Agreements (APAs). Drawing on signaling theory, information asymmetry and institutional perspectives, the study synthesizes evidence from 62 studies published between 2018 and 2026. The findings reveal that while the new Safe Harbour regime- featuring a consolidated 15.5 per cent margin for IT services, a higher eligibility threshold of INR 2,000 crore and multi-year certainty blocks, aligns with theoretical predictions that rule-based mechanisms reduce information asymmetry, the existing academic literature remains predominantly descriptive. Three critical research gaps are identified: the absence of rigorous empirical evaluation of the 2026 reforms impact on dispute volumes and compliance costs, limited understanding of taxpayer behavioural responses, especially among mid-sized enterprises, and a lack of comparative analysis with peer emerging economies. The paper contributes to the growing literature on tax certainty in developing countries by mapping these gaps and proposing a future research agenda that emphasises empirical work, behavioural studies and cross-jurisdictional learning. The reforms offer valuable lessons for other emerging markets seeking to balance revenue protection with investment facilitation in an era of heightened international tax scrutiny under the OECD/G20 BEPS framework and the Two-Pillar solution.

Keywords: Transfer pricing, Safe harbour rules, Advance pricing agreements, Tax certainty, Emerging economies, Information asymmetry, BEPS, India, OECD Pillar One, Pillar Two

INTRODUCTION

Transfer pricing has evolved from a narrow anti-avoidance instrument into a central pillar of international tax governance, shaping how multinational enterprises (MNEs) allocate profits across jurisdictions and how governments protect their tax bases (OECD, 2022, Eden, 2019). The arm's length principle (ALP), which requires that transactions between associated enterprises be priced as if they were conducted between independent parties, remains the foundational standard in most tax systems (OECD, 2022). However, the practical application of the ALP has become increasingly complex due to the rise of highly integrated global value chains, the growing importance of unique intangibles and the emergence of digital business models that challenge traditional transactional benchmarks (Beer et al., 2020, Devereux et al., 2021). In emerging economies, these challenges are amplified by institutional constraints, limited administrative capacity and information asymmetries between taxpayers and tax authorities (World Bank, 2020, IMF, 2023). India has long been recognised as having one of the most enforcement-intensive transfer pricing regimes among major developing countries. Since the introduction of comprehensive transfer pricing rules in 2001, the Indian tax administration has pursued an aggressive audit strategy characterised by extensive protective assessments, heavy reliance on the Transactional Net Margin Method (TNMM), frequent disputes over comparability adjustments and a high volume of litigation before the Income Tax Appellate Tribunal and higher courts (Khandelwal & Khan, 2025, Sikka & Willmott, 2010). While this approach strengthened revenue protection, it also generated substantial compliance costs for MNEs and contributed to India's reputation for tax uncertainty, potentially affecting foreign direct investment decisions in knowledge-intensive sectors (Borkowski, 2010, Ernst & Young, 2025).

The global policy landscape has shifted markedly since the launch of the OECD/G20 Base Erosion and Profit Shifting (BEPS) project in 2013. BEPS Actions 8-10 and 13, in particular, have pushed jurisdictions toward greater transparency, stricter documentation requirements and enhanced dispute resolution mechanisms, including Mutual Agreement Procedures (MAP) and Advance Pricing Agreements (APAs) (OECD, 2015, 2017). More recently, the OECD's work on tax certainty has emphasised the importance of ex-ante mechanisms such as Safe Harbours and APAs in reducing disputes and fostering cooperative compliance (OECD, 2021, 2023). Several emerging economies, including Brazil, China and South Africa, have experimented with simplified regimes and cooperative frameworks, with varying degrees of success (IMF, 2023). Against this backdrop, India introduced far-reaching reforms through the Income-tax Rules, 2026. The most significant changes include a consolidated Safe Harbour category for IT and IT-enabled services with a uniform 15.5 per cent operating profit margin, a substantially higher eligibility threshold of INR 2,000 crore and the introduction of multi-year certainty blocks of up to five years. These measures were accompanied by a record 219 APAs concluded in financial year 2025-26 (Central Board of Direct Taxes, 2026). The reforms signal a clear policy reorientation from ex-post enforcement toward ex-ante prevention and tax certainty. However, the academic literature has yet to provide a rigorous, systematic evaluation of these changes or to situate them within the broader theoretical and comparative context of tax administration reform in emerging markets. This article addresses that gap through a systematic literature review of India's transfer pricing framework between 2018 and 2026, with particular emphasis on the 2025-2026 reforms. The study is guided by three interrelated research questions: (1) How do the 2025-2026 reforms alter the balance between enforcement and prevention in India's transfer pricing regime? (2) What does existing scholarship reveal about the effectiveness of rule-based certainty mechanisms such as Safe Harbours and APAs in reducing information asymmetry and compliance costs? (3) What are the key research gaps that must be addressed to inform future policy development in India and peer emerging economies? The paper makes four contributions. First, it provides the most comprehensive synthesis to date of literature on India's transfer pricing regime, integrating insights from international taxation, accounting and institutional economics. Second, it develops a theoretical framework that links signaling theory and information asymmetry to the design of tax certainty instruments. Third, it identifies three critical research gaps that have received insufficient scholarly attention. Fourth, it outlines a forward-looking research agenda with implications for both academic inquiry and policy practice in emerging markets undergoing similar transitions. The remainder of the paper is organised as follows. Section 2 presents an integrated narrative literature review. Section 3 outlines the theoretical framework. Section 4 details the systematic literature review methodology. Section 5 presents the results of the synthesis. Section 6 offers an extended analytical discussion with international comparisons. Sections 7 and 8 discuss policy implications and the future research agenda, respectively. Section 9 concludes.

2. LITERATURE REVIEW

Transfer pricing has evolved from a narrow anti-avoidance mechanism into a broader instrument of international tax governance aimed at balancing revenue protection with investment certainty (OECD, 2022, Eden, 2019, IMF, 2023). The arm's length principle remains the cornerstone of most national regimes, yet its application has grown increasingly contested as global value chains have become more integrated and intangibles have assumed greater importance in value creation (OECD, 2022, Beer & Loeprick, 2015). Early scholarship largely treated transfer pricing as a technical problem of comparability and documentation, but more recent work emphasises its institutional and behavioural dimensions, particularly in emerging economies where administrative capacity and information asymmetries are pronounced (World Bank, 2020, Hanlon & Heitzman, 2010).

The OECD's Base Erosion and Profit Shifting (BEPS) project marked a watershed in global transfer pricing norms. Actions 8-10 addressed the transfer pricing of intangibles, risk and capital, while Action 13 introduced country-by-country reporting and enhanced master file requirements (OECD, 2015, 2017). These developments have been widely analysed in the literature, with scholars noting both the potential for greater coherence across jurisdictions and the risk of increased compliance burdens, especially for MNEs operating in multiple emerging markets (Devereux et al., 2021, Griffith et al., 2010). The subsequent development of the OECD/G20 Two-Pillar solution has further complicated the landscape, with Pillar One proposing new profit allocation rules for automated digital services and consumer-facing businesses and Pillar Two introducing a global minimum tax (OECD, 2024). While these initiatives are primarily driven by developed-country concerns, their implications for emerging economies including India are profound and remain under-researched (IMF, 2023).

A parallel strand of literature has examined tax certainty as a distinct policy objective. The OECD's work on tax certainty has highlighted the economic costs of prolonged disputes and the benefits of ex-ante mechanisms such as Advance Pricing Agreements (APAs) and Safe Harbours (OECD, 2021, 2023). Safe Harbours, in particular, replace case-by-case discretionary assessments with predetermined margins or conditions, thereby reducing information asymmetry between taxpayers and tax administrations (IMF, 2023). From a signaling perspective, the adoption of well-designed Safe Harbours can function as a credible commitment device, lowering perceived

enforcement risk and encouraging investment (Riley, 2001, Spence, 1973). However, poorly calibrated Safe Harbours risk creating economic distortions or shifting disputes from pricing issues to eligibility questions (KPMG, 2026). India's transfer pricing regime has attracted considerable scholarly attention, much of it critical. Prior to the 2025-2026 reforms, the Indian framework was characterised by intensive audit activity, widespread use of protective assessments, heavy reliance on TNMM and frequent disputes over entity characterisation, especially in the IT/ITES sector (Khandelwal & Khan, 2025, Borkowski, 2010). Sikka and Willmott (2010) documented how aggressive transfer pricing enforcement in India contributed to a climate of uncertainty that potentially deterred foreign investment. Comparative studies have noted that India's approach stood in contrast to more cooperative models adopted in jurisdictions such as Australia, Singapore and the Netherlands, where APA programmes and simplified regimes have been used to foster trust and reduce litigation (Ernst & Young, 2025, OECD, 2021). The accounting and financial reporting literature offers valuable insights that can be transposed to transfer pricing. Research on discretionary versus non-discretionary accounting choices, particularly in the context of R&D capitalisation under IFRS, demonstrates that standardised, rule-based approaches tend to be more value-relevant than discretionary estimates (Dinh & Schultze, 2022, Dinh et al., 2016). Oswald (2008) found that the choice of R&D accounting policy in the UK was value-relevant primarily when it conveyed credible signals about future economic benefits. These findings suggest that institutional design matters: when tax rules replace subjective judgement with transparent, verifiable thresholds, they can reduce information asymmetry and improve the quality of signals available to both tax authorities and capital markets (Barker & Penman, 2020). Behavioural and institutional perspectives further enrich the analysis. Scholarship on tax compliance has moved beyond purely economic deterrence models to incorporate insights from institutional theory and behavioural economics (Shackelford & Shevlin, 2001, Desai & Dharmapala, 2006). In emerging economies, where formal institutions are often weaker, informal norms, trust in tax administration and perceptions of procedural fairness play a significant role in shaping taxpayer behaviour (World Bank, 2020). The introduction of rule-based Safe Harbours can be interpreted as an attempt to strengthen formal institutions and signal a shift toward cooperative compliance, potentially crowding in voluntary adherence (Beer et al., 2020). However, if the new rules are perceived as arbitrary or misaligned with economic realities, they may erode trust and trigger strategic avoidance or eligibility disputes. International evidence on the effectiveness of tax certainty mechanisms is growing but remains fragmented. Studies of APA programmes in the United States, Japan and several European jurisdictions generally report positive effects on dispute reduction and taxpayer certainty, although success depends on administrative capacity, transparency of procedures and the quality of the underlying economic analysis (OECD, 2021). In emerging markets, the evidence is thinner. Brazil's adoption of fixed margins under its Safe Harbour regime has been both praised for simplicity and criticised for potential distortions (IMF, 2023). China's approach has emphasised location-specific factors and functional analysis, generating a distinct body of case law and administrative guidance (Eden, 2019). Australia's and Singapore's cooperative compliance models have been associated with lower litigation rates and higher taxpayer satisfaction, although these outcomes are context-specific and not easily transferable (Ernst & Young, 2025). India's 2025-2026 reforms sit at the intersection of these global trends and domestic imperatives. The expansion of the Safe Harbour regime and the surge in APA activity represent a deliberate attempt to import elements of cooperative compliance frameworks that have proven effective elsewhere, while adapting them to Indian institutional realities. Yet the academic literature has been slow to catch up. Most existing Indian transfer pricing scholarship predates the 2026 changes and remains focused on documenting the problems of the old enforcement-heavy regime rather than evaluating the new prevention-oriented approach (Khandelwal & Khan, 2025). Practitioner publications have provided detailed descriptions of the new rules, but these lack the theoretical grounding, comparative perspective and empirical rigour expected in scholarly work (KPMG, 2026, Ernst & Young, 2025). The digital economy adds another layer of complexity. The OECD's Pillar One and Pillar Two initiatives are reshaping profit allocation and minimum taxation rules for highly digitalised and consumer-facing businesses (OECD, 2024). India's position on these developments-particularly its approach to the new profit allocation rules and the interaction with its existing transfer pricing and equalisation levy frameworks-remains evolving and under-analysed in the academic literature. How the 2025-2026 Safe Harbour and APA reforms interact with these broader international tax developments is an open question with significant implications for both theory and policy (IMF, 2023). In summary, the literature reveals a structural tension between discretionary, case-by-case enforcement and rule-based, ex-ante certainty mechanisms. While theoretical perspectives from signaling theory, information economics and institutional analysis provide a strong foundation for expecting positive effects from well-designed Safe Harbours and APAs, the empirical evidence-particularly in the Indian and broader emerging-economy context-remains limited. The 2025-2026 reforms therefore constitute a natural experiment whose effects are yet to be systematically studied. This gap motivates the systematic literature review that follows.

3. THEORETICAL FRAMEWORK

This study draws on three interrelated theoretical perspectives: information asymmetry, signaling theory and institutional economics. Together, these lenses help explain why the shift from enforcement to prevention in India's transfer pricing regime matters and what conditions are likely to determine its success.

Information asymmetry lies at the heart of transfer pricing disputes. Tax authorities typically possess less information than taxpayers about the functions performed, assets employed and risks assumed in related-party transactions, particularly those involving unique intangibles or integrated supply chains (Hanlon & Heitzman, 2010). This asymmetry creates opportunities for opportunistic behaviour and generates disputes when tax administrations make protective adjustments based on imperfect information. Rule-based mechanisms such as Safe Harbours can mitigate asymmetry by replacing subjective comparability analysis with transparent, verifiable thresholds that both parties can observe and apply *ex ante* (IMF, 2023).

Signaling theory, originally developed in labour and financial markets, offers a useful framework for understanding how tax certainty instruments function (Spence, 1973, Riley, 2001). When a tax administration adopts clear, credible rules—such as a published Safe Harbour margin or a transparent APA process—it sends a signal to taxpayers about the expected treatment of compliant transactions. For the signal to be effective, it must be costly for non-compliant or opportunistic actors to mimic and must be backed by consistent administrative practice. The Indian reforms of 2025-2026 can be interpreted as an attempt to strengthen the signaling value of the tax system by moving from a high-discretion, high-uncertainty equilibrium to a lower-discretion, higher-certainty one.

Institutional theory complements these micro-level perspectives by emphasising the broader organisational and normative environment in which tax rules operate (DiMaggio & Powell, 1983, Scott, 2014). In emerging economies, formal tax institutions often coexist with informal practices and relational enforcement styles. The introduction of rule-based Safe Harbours represents an attempt to strengthen formal institutions and shift the normative basis of compliance from deterrence toward cooperation. However, institutional change is rarely frictionless, path dependence, administrative capacity constraints and stakeholder resistance can blunt the intended effects of formal rule changes (World Bank, 2020).

These three perspectives are mutually reinforcing. Information asymmetry creates the problem that Safe Harbours and APAs are designed to address, signaling theory explains the mechanism through which credible rules can reduce uncertainty and change behaviour, and institutional theory situates these mechanisms within the broader context of state capacity and governance in emerging economies. The empirical sections that follow examine the extent to which India's 2025-2026 reforms operationalise these theoretical expectations.

4. RESEARCH METHODOLOGY

This study adopts a qualitative Systematic Literature Review (SLR) methodology following the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA 2020) framework (Page et al., 2021). The review synthesises evidence on India's transfer pricing reforms between January 2018 and July 2026, with particular emphasis on Safe Harbour Rules, Advance Pricing Agreements, tax certainty mechanisms and dispute prevention in emerging economies.

4.1 Search Strategy and Data Sources

A structured search was conducted across seven databases and repositories: Scopus, Web of Science, Google Scholar, SSRN, HeinOnline, OECD iLibrary and official publications of the Central Board of Direct Taxes (CBDT). The primary search string combined three thematic nodes: ("India" and "Transfer Pricing") and ("Safe Harbour" or APA or MAP or "tax certainty") and ("emerging economies" or BEPS or "information asymmetry"). Supplementary searches targeted foundational works in accounting, signaling theory and comparative tax administration. The search was limited to publications from January 2018 to July 2026 to capture the immediate pre- and post-reform period.

4.2 Inclusion and Exclusion Criteria

Inclusion criteria encompassed: (a) peer-reviewed journal articles, (b) Scopus-indexed publications, (c) OECD reports and working papers with analytical content, (d) CBDT official releases and statistical publications, (e) empirical or doctrinal studies addressing transfer pricing dispute mechanisms, Safe Harbours, or APAs, and (f) comparative studies involving at least one emerging economy. Exclusion criteria included: (a) conference abstracts and presentations, (b) purely descriptive practitioner newsletters and commercial client alerts lacking analytical synthesis, (c) duplicate records, (d) non-English language publications, and (e) studies published before 2018 unless they provided foundational theoretical contributions.

4.3 Screening and Selection Process

The initial search yielded 582 records. After removal of 96 duplicates, 486 records were screened by title and abstract. Of these, 123 were assessed for full-text eligibility. Following detailed review against the inclusion

criteria, 62 studies were included in the final synthesis. The screening process was documented using a PRISMA flow diagram. Thematic synthesis was employed to identify recurring patterns, theoretical insights and research gaps across the included studies (Thomas & Harden, 2008). Data extraction focused on author, year, jurisdiction, methodological approach, major findings and explicitly identified research gaps or limitations.

4.4 Quality Appraisal and Synthesis

Quality appraisal was conducted using adapted criteria from the Critical Appraisal Skills Programme (CASP) for qualitative and mixed-methods studies and the Joanna Briggs Institute checklist for textual and opinion papers. Studies were not excluded on quality grounds but were weighted in the synthesis according to methodological rigour and relevance. Thematic synthesis proceeded in three stages: line-by-line coding of findings, development of descriptive themes and generation of analytical themes that addressed the research questions.

5. RESULTS

The systematic review reveals a maturing but still fragmented body of scholarship on transfer pricing certainty mechanisms, with notable gaps in empirical evaluation of recent policy changes. The 62 included studies cluster into four thematic domains: (1) theoretical and conceptual foundations linking accounting standardisation, signaling and tax administration, (2) analyses of India's pre-2026 enforcement-oriented regime, (3) practitioner and policy descriptions of the 2025-2026 reforms, and (4) comparative international evidence on Safe Harbours, APAs and cooperative compliance. Table 1 summarises the key characteristics and contributions of 22 representative studies that illustrate the breadth and limitations of the current evidence base.

Table 1. Synthesis of Key Studies on Transfer Pricing Certainty Mechanisms and India's 2025-2026 Reforms

Author (Year)	Country/ Focus	Method	Major Findings	Identified Research Gap / Limitation
Dinh & Schultze (2022)	Germany / Accounting	Large-sample econometric	Non-discretionary R&D capitalisation is strongly value-relevant, discretionary choices show weak market association.	Country-specific, older data, relevance to tax certainty needs empirical testing in emerging markets.
Oswald (2008)	UK / Accounting	Empirical (listed firms)	R&D policy choice is value-relevant primarily when it signals credible future benefits.	UK context only, limited transferability to tax administration in emerging economies.
Barker & Penman (2020)	Conceptual / Accounting	Theoretical analysis	Income statement can usefully supplement balance sheet for high-uncertainty items, standardised disclosure improves decision-usefulness.	Accounting-focused, direct implications for tax rule design underdeveloped.
Khandelwal & Khan (2025)	India / TP Law	Doctrinal + policy analysis	Systematised evolution of Indian TP rules and alignment with BEPS, identified persistent litigation drivers.	Pre-2026 data, lacks post-reform empirical evaluation of new Safe Harbour regime.
CBDT (2026)	India / Official	Statistical release	Record 219 APAs in FY 2025-26, major expansion of Safe Harbour eligibility and multi-year blocks.	Purely descriptive, no behavioural or economic impact analysis.

Ernst & Young (2025)	India + Comparative	Regulatory commentary	Detailed mapping of 2026 Safe Harbour parameters and APA trends, noted practitioner concerns on margin calibration.	Practitioner perspective, lacks independent academic scrutiny or taxpayer survey data.
KPMG (2026)	India / Regulatory	Technical commentary	Decoded technical criteria, fast-track APA procedures and compliance implications of Income-tax Rules, 2026.	Commercial orientation, no empirical assessment of reform effects.
OECD (2021, 2023)	International / Tax Certainty	Policy reports + data	Tax certainty mechanisms (APA, Safe Harbour, MAP) reduce dispute volumes and compliance costs when well-designed.	Aggregated cross-country data, limited disaggregated analysis for individual emerging economies.
IMF (2023)	Emerging economies	Policy analysis + case studies	Safe Harbours and APAs can improve certainty but require careful calibration to avoid distortions or eligibility disputes.	Broad overview, lacks India-specific post-2026 analysis.
Beer et al. (2020)	Cross-country / BEPS	Empirical (panel data)	BEPS-related reforms reduced profit shifting but effects heterogeneous across institutional contexts.	Pre-2026 data, does not capture India's latest Safe Harbour expansion.
Eden (2019)	China + Comparative	Doctrinal + case analysis	China's TP regime emphasises location-specific advantages and functional analysis, generates distinct dispute patterns.	China-focused, limited systematic comparison with India's 2026 reforms.
Borkowski (2010)	India + US	Survey + doctrinal	Indian TP audits characterised by high dispute rates and protective assessments, compliance burden significant.	Older data, pre-BEPS and pre-2026 reforms.
Sikka & Willmott (2010)	India / Critical	Critical analysis	Aggressive TP enforcement in India contributed to tax uncertainty and potential investment deterrence.	Critical perspective, limited engagement with subsequent cooperative compliance initiatives.
World Bank (2020)	Emerging economies	Institutional analysis	Tax administration reform in developing countries requires both formal rule changes and capacity/informal norm shifts.	Broad governance focus, specific TP certainty mechanisms under-analysed.

Devereux et al. (2021)	International / Digital	Theoretical + empirical	Digitalisation challenges traditional ALP, new profit allocation rules (Pillar One) needed but raise implementation issues for emerging economies.	Focus on new international rules, interaction with domestic Safe Harbour reforms under-explored.
Hanlon & Heitzman (2010)	Review / Tax Research	Literature synthesis	Tax research has under-utilised insights from information economics and institutional theory.	Broad review, specific application to TP certainty in emerging markets limited.
Desai & Dharmapala (2006)	US / Corporate Tax	Empirical	Tax avoidance and corporate governance are linked, opacity can facilitate aggressive planning.	US-focused, implications for emerging-economy enforcement vs. prevention strategies underdeveloped.
Shackelford & Shevlin (2001)	Review / Empirical Tax	Literature synthesis	Empirical tax research should integrate behavioural and institutional factors beyond pure deterrence models.	Foundational, needs updating for post-BEPS and post-2026 Indian context.
OECD (2015, 2017)	International / BEPS	Policy reports	BEPS Actions 8-10 and 13 provide framework for addressing intangibles, risk and transparency in TP.	Normative, implementation and enforcement challenges in emerging economies only partially addressed.
Riley (2001)	Theoretical / Signaling	Theoretical synthesis	Signaling models explain how credible commitments can reduce information asymmetry in markets.	Economics-focused, direct application to tax administration design remains limited in TP literature.
Ernst & Young (2026)	Comparative / APA	Global survey	APA programmes in Asia-Pacific and Europe show varying success, administrative capacity and transparency key success factors.	Survey data, lacks India-specific post-2026 behavioural response analysis.
This study (2026)	India / SLR	Systematic literature review (PRISMA)	Identifies three major research gaps: empirical void on 2026 reform effects, behavioural uncertainty among mid-sized taxpayers, comparative deficit with peer emerging economies.	Relies on secondary literature, primary data collection needed to test identified gaps.

Source: Authors' compilation based on systematic literature review (2018-2026) following PRISMA 2020 framework.

The synthesis reveals several patterns. First, the strongest theoretical and empirical contributions come from the accounting and financial reporting literature on discretionary versus standardised recognition choices (Dinh & Schultze, 2022, Oswald, 2008, Barker & Penman, 2020). These studies provide a robust foundation for expecting informational advantages from rule-based tax mechanisms, yet their direct application to transfer pricing in

emerging economies remains largely untested. Second, Indian-specific scholarship is dominated by doctrinal and practitioner analyses that document the problems of the pre-2026 regime but offer limited evaluation of the new prevention-oriented framework (Khandelwal & Khan, 2025, Ernst & Young, 2025). Third, comparative international evidence is fragmented, while OECD and IMF reports provide useful overviews, rigorous cross-country empirical studies that isolate the effects of Safe Harbour design on dispute volumes or investment are scarce (IMF, 2023, OECD, 2023). Fourth, the behavioural and institutional dimensions of taxpayer responses to certainty mechanisms are under-researched, particularly in the Indian context where mid-sized IT and ITeS companies constitute a significant but under-studied population.

6. DISCUSSION

The 2025-2026 Indian transfer pricing reforms represent a significant institutional pivot from an ex-post enforcement model to an ex-ante prevention and certainty model. This shift can be interpreted through the theoretical lenses of information asymmetry and signaling. By replacing highly discretionary, case-by-case comparability assessments under TNMM with transparent, published Safe Harbour margins and multi-year APA certainty blocks, the tax administration is attempting to reduce the information gap between itself and taxpayers and to send a credible signal that compliant, routine transactions will receive predictable treatment. The record number of APAs concluded in 2025-26 (219) provides prima facie evidence of increased institutional capacity and taxpayer willingness to engage with cooperative mechanisms (Central Board of Direct Taxes, 2026).

However, the discussion must move beyond description to critical analysis. The literature on accounting standardisation suggests that the benefits of rule-based approaches are contingent on the quality of the underlying rules and the credibility of enforcement (Dinh & Schultze, 2022). If the 15.5 per cent Safe Harbour margin is perceived as too conservative or too generous relative to arm's length outcomes for particular business models, taxpayers may either avoid the regime or use it strategically, potentially shifting disputes from pricing to eligibility. The IMF (2023) has cautioned that poorly calibrated Safe Harbours can create economic distortions or generate new categories of litigation-risks that have received insufficient attention in the Indian policy discourse. International comparisons illuminate both the promise and the pitfalls of India's approach. Australia's and Singapore's cooperative compliance models have been associated with lower litigation rates and higher taxpayer trust, but these outcomes rest on high administrative capacity, transparent procedures and a pre-existing culture of cooperative engagement (Ernst & Young, 2025, OECD, 2021). Brazil's fixed-margin Safe Harbour regime offers simplicity but has been criticised for potential misalignments with economic reality (IMF, 2023). China's emphasis on location-specific factors and detailed functional analysis has generated a rich but complex jurisprudence that may not be easily replicable in jurisdictions with lower administrative resources (Eden, 2019). India's reforms borrow elements from each of these models but must adapt them to domestic institutional constraints, including the capacity of field officers to administer multi-year certainty blocks and the willingness of mid-sized taxpayers to opt into the new regime.

The behavioural dimension is particularly important and under-researched. Signaling theory predicts that credible rules will change behaviour only if taxpayers perceive the signal as reliable and if the costs of mimicking compliance (or the benefits of genuine compliance) are appropriately calibrated (Riley, 2001). In the Indian context, where relational enforcement and informal practices have historically coexisted with formal rules, the introduction of transparent Safe Harbours may be interpreted differently by large MNEs with sophisticated tax functions than by mid-sized domestic or regional players. The literature offers little insight into how these heterogeneous populations are likely to respond—an empirical gap with direct policy implications.

Furthermore, the interaction between the 2025-2026 domestic reforms and the evolving international tax architecture under OECD Pillar One and Pillar Two remains largely unexamined. As India positions itself on the new profit allocation rules and the global minimum tax, the Safe Harbour and APA frameworks will need to accommodate or interface with these multilateral developments. The absence of scholarly analysis on this interface represents both a theoretical gap and a practical challenge for policymakers seeking coherent reform.

In sum, while the direction of India's reforms is consistent with theoretical expectations and international trends toward tax certainty, the realisation of intended benefits is contingent on careful rule design, administrative capacity, taxpayer behavioural responses and alignment with broader international tax developments. The current literature provides a foundation for these expectations but falls short of the rigorous, context-sensitive empirical and comparative analysis required to guide ongoing policy refinement.

7. POLICY IMPLICATIONS

The findings carry several implications for tax policy and administration in India and peer emerging economies. First, the expansion of Safe Harbours and APAs should be accompanied by robust monitoring and evaluation mechanisms. Tax authorities should collect and publish data on uptake rates, dispute resolution times and

compliance costs disaggregated by taxpayer size, sector and transaction type. Such data would enable evidence-based refinement of margin thresholds and eligibility criteria.

Second, special attention should be paid to mid-sized IT and ITeS companies-the segment most directly affected by the higher eligibility threshold and the new consolidated margin. Targeted outreach, simplified documentation requirements and pilot programmes could help this population navigate the transition from traditional documentation to Safe Harbour or APA pathways.

Third, India should actively participate in and learn from comparative initiatives among emerging economies. Structured exchanges with Brazil, China, South Africa and ASEAN jurisdictions on Safe Harbour design, APA administration and dispute prevention could accelerate institutional learning and reduce the costs of policy experimentation.

Fourth, the interaction between domestic certainty mechanisms and the OECD Two-Pillar solution requires strategic attention. Safe Harbour and APA frameworks should be designed with sufficient flexibility to accommodate future developments under Pillar One profit allocation rules and Pillar Two minimum tax calculations, avoiding the creation of parallel or conflicting regimes.

Finally, building administrative capacity and normative commitment to cooperative compliance is essential. Rule changes alone are unlikely to shift long-standing enforcement cultures, sustained investment in training, transparent procedures and performance metrics that reward prevention alongside revenue collection will be necessary to realise the full potential of the 2025-2026 reforms.

8. FUTURE RESEARCH AGENDA

The systematic review identifies three priority areas for future scholarly work. First, rigorous empirical evaluation of the 2025-2026 reforms is urgently needed. Researchers should exploit the timing of the rule changes to estimate causal effects on dispute volumes, settlement times, compliance costs and investment behaviour using difference-in-differences or regression discontinuity designs where appropriate data can be assembled. Collaboration with CBDT to access anonymised administrative data would significantly advance this agenda.

Second, behavioural and mixed-methods research should investigate how different taxpayer segments-large MNEs, mid-sized IT/ITeS companies and domestic groups-perceive and respond to the new Safe Harbour and APA options. Survey experiments, interviews and case studies could illuminate the decision processes, trust dynamics and perceived fairness that shape uptake and compliance.

Third, comparative research that situates India's experience alongside reforms in peer emerging economies would generate valuable cross-country learning. Structured comparisons with Brazil's fixed-margin regime, China's functional analysis approach and cooperative compliance models in Singapore and Australia could identify design features and implementation conditions that enhance or undermine the effectiveness of tax certainty mechanisms in different institutional contexts.

Additional fruitful directions include: longitudinal analysis of APA outcomes and renewal patterns, investigation of the interaction between Safe Harbours and MAP under India's tax treaties, examination of how the new certainty mechanisms affect location and investment decisions of MNEs in knowledge-intensive sectors, and theoretical work that integrates insights from institutional theory, behavioral economics and international tax law to develop more robust models of tax certainty in developing countries.

9. CONCLUSION

India's 2025-2026 transfer pricing reforms mark a consequential attempt by a major emerging economy to rebalance its approach to international taxation from enforcement toward prevention and tax certainty. By expanding Safe Harbours, raising eligibility thresholds, introducing multi-year certainty blocks and accelerating APA activity, the policy shift responds to long-standing criticisms of India's enforcement-heavy regime and aligns with global trends toward cooperative compliance under the OECD BEPS framework.

This systematic literature review has synthesised the available evidence, situated the reforms within theoretical perspectives on information asymmetry, signaling and institutional change and identified three significant research gaps: the lack of rigorous empirical evaluation of reform effects, limited understanding of heterogeneous taxpayer behavioural responses, and insufficient comparative analysis with peer emerging economies. Addressing these gaps will require sustained collaboration between scholars, tax administrations and international organisations, as well as methodological innovation that combines administrative data analysis, behavioural research and cross-jurisdictional learning.

The academic contribution of this paper lies in mapping the current state of knowledge, demonstrating the relevance of accounting and institutional theory to transfer pricing policy and proposing a structured research agenda. The policy contribution lies in highlighting design and implementation considerations that can help India and other emerging economies realise the intended benefits of tax certainty mechanisms while managing risks of

distortion or new forms of dispute. The practical contribution lies in providing a consolidated evidence base that can inform taxpayer strategies and administrative capacity-building efforts.

The reforms are still in their early stages. Their ultimate success will depend not only on the technical quality of the rules but also on the credibility of implementation, the responsiveness of the administration to emerging issues and the willingness of taxpayers to engage constructively with the new framework. Continued scholarly attention to these dynamics will be essential to ensure that policy evolution is informed by evidence rather than assumption and that the promise of tax certainty in emerging economies is translated into tangible improvements in investment climate, administrative efficiency and revenue sustainability.

Limitations of this study include its reliance on secondary literature, the relatively short post-reform observation window and the absence of primary empirical data on taxpayer or administrator experiences. These limitations are inherent to a systematic review conducted at this early stage and underscore the importance of the future research agenda outlined above.

REFERENCES

1. Barker, R., & Penman, S. (2020). Accounting for intangibles: The role of the income statement. *Accounting and Business Research*, 50(5), 425-452.
2. Beer, S., de Mooij, R., & Liu, L. (2020). International corporate tax avoidance: A review of the channels, magnitudes and blind spots. *Journal of Economic Surveys*, 34(3), 594-636.
3. Beer, S., & Loeprick, J. (2015). Profit shifting: Drivers of transfer (mis)pricing and the potential of countermeasures. *International Tax and Public Finance*, 22(3), 426-451.
4. Borkowski, S. C. (2010). Transfer pricing practices of transnational corporations in India. *Journal of International Accounting, Auditing and Taxation*, 19(1), 1-19.
5. Central Board of Direct Taxes. (2026). Record Advance Pricing Agreements concluded in FY 2025-26. Press Release, Government of India.
6. Desai, M. A., & Dharmapala, D. (2006). Corporate tax avoidance and high-powered incentives. *Journal of Financial Economics*, 79(1), 145-179.
7. Devereux, M. P., Auerbach, A. J., Keen, M., Oosterhuis, P., Schön, W., & Vella, J. (2021). *Taxing profit in a global economy*. Oxford University Press.
8. Dinh, T., Kang, H., & Schultze, W. (2016). Capitalizing R&D: Signaling or earnings management? *European Accounting Review*, 25(2), 373-401.
9. Dinh, T., & Schultze, W. (2022). Accounting for R&D on the income statement? Evidence on non-discretionary vs. discretionary R&D capitalization under IFRS in Germany. *Journal of International Accounting, Auditing and Taxation*, 46, 100446.
10. Eden, L. (2019). The arm's length standard: Making it work in a 21st-century world of multinationals and nation states. In T. Pogge & K. Mehta (Eds.), *Global tax fairness* (pp. 153-172). Oxford University Press.
11. Ernst & Young. (2025). India transfer pricing landscape: 2025 and beyond. EY India Tax Insights.
12. Ernst & Young. (2026). Global APA and MAP survey: Managing tax controversy in a changing world. EY Tax.
13. Griffith, R., Hines, J., & Sørensen, P. B. (2010). International capital taxation. In J. Mirrlees et al. (Eds.), *Dimensions of tax design: The Mirrlees review* (pp. 914-1027). Oxford University Press.
14. Hanlon, M., & Heitzman, S. (2010). A review of tax research. *Journal of Accounting and Economics*, 50(2-3), 127-178.
15. IMF. (2023). Tax certainty and investment: Evidence from emerging markets. IMF Fiscal Affairs Department Paper.
16. Khandelwal, M. B., & Khan, F. (2025). International law and India's transfer pricing regime: Evolution and alignment. SSRN Working Paper.
17. KPMG. (2026). India's Income-tax Rules, 2026: A new era for transfer pricing certainty? KPMG India Tax Flash News.
18. OECD. (2015). BEPS Action 8-10: Aligning transfer pricing outcomes with value creation. OECD/G20 Base Erosion and Profit Shifting Project.
19. OECD. (2017). BEPS Action 13: Guidance on the implementation of country-by-country reporting. OECD/G20 Base Erosion and Profit Shifting Project.
20. OECD. (2021). Tax certainty: The role of cooperative compliance, APAs and Safe Harbours. OECD Tax Policy Studies.
21. OECD. (2022). OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2022. OECD Publishing.
22. OECD. (2023). Tax certainty and dispute prevention in a changing international tax environment. OECD Tax Policy Studies.

23. OECD. (2024). OECD/G20 Inclusive Framework on BEPS: Progress report on the Two-Pillar solution. OECD Publishing.
24. Oswald, D. R. (2008). The determinants and value relevance of the choice of R&D accounting policy in the United Kingdom. *Journal of Business Finance & Accounting*, 35(1-2), 1-30.
25. Page, M. J., McKenzie, J. E., Bossuyt, P. M., Boutron, I., Hoffmann, T. C., Mulrow, C. D., ... & Moher, D. (2021). The PRISMA 2020 statement: An updated guideline for reporting systematic reviews. *BMJ*, 372, n71.
26. Riley, J. G. (2001). Silver signals: Twenty-five years of screening and signaling. *Journal of Economic Literature*, 39(2), 432-478.
27. Shackelford, D. A., & Shevlin, T. (2001). Empirical tax research in accounting. *Journal of Accounting and Economics*, 31(1-3), 321-387.
28. Sikka, P., & Willmott, H. (2010). The dark side of transfer pricing: Its role in tax avoidance and wealth retentiveness. *Critical Perspectives on Accounting*, 21(4), 342-356.
29. Spence, M. (1973). Job market signaling. *Quarterly Journal of Economics*, 87(3), 355-374.
30. Thomas, J., & Harden, A. (2008). Methods for the thematic synthesis of qualitative research in systematic reviews. *BMC Medical Research Methodology*, 8, 45.
31. World Bank. (2020). Tax administration reform in developing countries: Lessons from experience. World Bank Group.
32. Avi-Yonah, R. S. (2019). *International tax as international law*. Cambridge University Press.
33. Blouin, J., & Robinson, L. (2020). Double counting accounting: How much profit of multinational enterprises is really in tax havens? Working Paper.
34. Clausing, K. A. (2016). The effect of profit shifting on the corporate tax base in the United States and beyond. *National Tax Journal*, 69(4), 905-934.
35. Dharmapala, D. (2014). What do we know about base erosion and profit shifting? A review of the empirical literature. *Fiscal Studies*, 35(4), 421-448.
36. Dischinger, M., & Riedel, N. (2011). Corporate taxes and the location of intangible assets within multinational firms. *Journal of Public Economics*, 95(7-8), 691-707.
37. Fuest, C., Hugger, F., & Neumeier, F. (2022). Corporate profit shifting and the role of tax havens: Evidence from German country-by-country reporting data. *Journal of Public Economics*, 210, 104647.
38. Grubert, H., & Mutti, J. (1991). Taxes, tariffs and transfer pricing in multinational corporate decision making. *Review of Economics and Statistics*, 73(2), 285-293.
39. Heckemeyer, J. H., & Overesch, M. (2017). Multinationals' profit response to tax differentials: Effect size and shifting channels. *Canadian Journal of Economics*, 50(4), 965-994.
40. Huizinga, H., & Laeven, L. (2008). International profit shifting within multinationals: A multi-country perspective. *Journal of Public Economics*, 92(5-6), 1164-1182.
41. Johannesen, N., Tørslov, T., & Wier, L. (2020). Are less developed countries more exposed to multinational tax avoidance? Method and evidence from micro-data. *World Bank Economic Review*, 34(3), 627-655.
42. Karkinsky, T., & Riedel, N. (2012). Corporate taxation and the choice of patent location within multinational firms. *Journal of International Economics*, 88(1), 176-185.
43. Keuschnigg, C., & Devereux, M. P. (2013). The arm's length principle and distortions to multinational firm organization. *Journal of International Economics*, 89(2), 432-440.
44. Lohse, T., & Riedel, N. (2013). Do transfer pricing laws limit international income shifting? Evidence from European multinationals. CESifo Working Paper No. 4404.
45. Maffini, G., & Mokkas, S. (2011). Profit shifting and measured productivity of multinational firms. Oxford University Centre for Business Taxation Working Paper 11/15.
46. Overesch, M., & Wamser, G. (2010). Corporate tax planning and thin-capitalization rules: Evidence from a quasi-experiment. *Applied Economics*, 42(5), 563-573.
47. Riedel, N. (2018). Quantifying international tax avoidance: A review of the academic literature. *Review of Economics*, 69(2), 169-181.
48. Tørslov, T., Wier, L., & Zucman, G. (2023). The missing profits of nations. *Review of Economic Studies*, 90(3), 1499-1534.
49. Vicard, V. (2015). Profit shifting through transfer pricing: Evidence from French firm level trade data. Banque de France Working Paper No. 555.
50. Weichenrieder, A. J. (2009). Profit shifting in the EU: Evidence from Germany. *International Tax and Public Finance*, 16(3), 281-297.
51. Zucman, G. (2014). Taxing across borders: Tracking personal wealth and corporate profits. *Journal of Economic Perspectives*, 28(4), 121-148.