

Safe harbour rules for transfer pricing documentation: Notified for specified domestic transactions of electricity companies run by the government

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The Central Board of Direct Taxes (CBDT) has released a new set of simplified Transfer Pricing (TP) Documentation Rules for domestic transactions of electricity companies owned by the government. In continuance with recent attention on addressing taxpayer's woes, the government has notified the Safe Harbour Rules (SHR) for eligible specified domestic transactions (SDT) of the electricity companies owned by the government vide notification dated 4 February 2015. These simple TP documentation rules will have to be followed by Government companies engaged in the business of generation, transmission or distribution of electricity, instead of the mandatory documentation prescribed currently under Rule 10D(1) of the Income-tax Rules, 1962.

The key highlights of these SHR are as under:

1. The SHR provide that where an **eligible assessee** has entered into an **eligible specified domestic transaction** in any previous year, it would be required to maintain only the following documentation if it exercises the option to adopt these SHR.

Eligible SDT	Safe Harbour Circumstances
Eligible SDT undertaken by eligible assessee comprising of;	The tariff in respect of supply of electricity, transmission of electricity, wheeling of electricity, as the case may be, is determined by the Appropriate Commission* in accordance with the provisions of the Electricity Act, 2003 (36 of 2003).
(i) Supply of electricity by a generating company,	
(ii) transmission of electricity, or	
(iii) wheeling of electricity	

*Appropriate Commission is defined in the Electricity Act, 2003 as “‘*Appropriate Commission*’ means the Central Regulatory Commission referred to in sub-section (1) of section 76 or the State Regulatory Commission referred to in section 82 or the Joint Commission referred to in Section 83, as the case may be”

2. The Rules define 'eligible assessee' and 'eligible SDT' as under:

- An '*eligible assessee*' means a person who has exercised a valid option for application of safe harbour rules in accordance with the provisions of rule 10 THC, and is a government company engaged in the business of generation, transmission or distribution of electricity.
- "*eligible SDT*" means a specified domestic transaction undertaken by an eligible assessee and which comprises of :
 - (i) supply of electricity by a generating company; or
 - (ii) transmission of electricity; or
 - (iii) wheeling of electricity.

The transfer price declared by the eligible assessee in respect of such eligible SDT shall be accepted by the income-tax authorities, if it is in accordance with the specifications of the rule.

3. The above SHRs specify the following documentation to be maintained by Government Electricity companies (Assessee), once they adopt the option by filing of prescribed Form No. 3CEFB:

- (i) a description of the **ownership structure** of the assessee enterprise with details of shares or other ownership interest held therein by other enterprises;
- (i) a broad description of the business of the assessee and the industry in which the assessee operates, and of the business of the associated enterprises with whom the assessee has transacted;
- (ii) the nature and terms (including prices) of SDT entered into with each associated enterprise and the quantum and the value of each such transaction or class of such transaction;
- (iii) a record of proceedings if any before the regulatory commission and orders of such commission relating to the specified domestic transaction;
- (iv) a record of the actual working carried out for determining the transfer price of the specified domestic transaction;

(vi) the assumptions, policies and price negotiations, if any, which have critically affected the determination of the transfer price;

(vii) any other information, data or document, including information or data relating to the associated enterprise, which may be relevant for determination of the transfer price.

4. The Rules state that, for the purpose of exercising the SHR option, the assessee shall have to furnish a **Form 3CEFB (Form)**, to the Assessing Officer (AO) on or before the due date for filing the return of income.

5. The above SHRs shall apply for each assessment year in which the eligible assessee has entered into an eligible SDT and the option exercised by the said assessee is treated to be validly exercised. Further, the assessee also has an option to benefit from these SHRs for the AY 2013-14 and AY 2014-15 by filing the prescribed Form on or before the 31 March 2015.

6. The AO is empowered to analyse whether the assessee exercising the option is an *eligible assessee* and the transaction for which the option is exercised is an *eligible SDT*. The AO may accept or reject the taxpayer's option, after giving an opportunity for hearing and by a reasoned order within a period of three months.

7. The taxpayer shall have a right to file an objection, with the jurisdictional Principal Commissioner or the Commissioner or the Principal Director or the Director, **within fifteen days** of receipt of the order of the AO, against adverse finding regarding the eligibility.

8. The Rules provide that the jurisdictional Principal Commissioner or the Commissioner or the Principal Director or the Director, shall, after providing an opportunity of being heard to the assessee, pass appropriate orders in respect of the validity or otherwise of the option exercised by the assessee, **within a period of two months**.

The assessee will however be required to file the Accountant's report in Form No. 3CEB even where it opts to be governed by the SHR.

Our comments

This appears to be the first set of SHRs prescribed for Domestic Transfer Pricing, though only for Government electricity companies as of now. These relaxed documentation requirements will help in saving the efforts that would have been spent by these companies in analysing and documenting arm's length compliance for their inter-company transactions, and divert their efforts to more developmental avenues leading to economic growth. In light of the fact that, the documentation for SDTs shall be tested from next year onwards by the Indian Revenue Authorities, the CBDT may consider issuing such relaxation from documentation rules for private players in the power sector as well as other industry sectors where pricing is regulated e.g. mutual funds where the expenditure charged to the mutual funds scheme including the management fee paid to the asset management companies is anyways regulated by SEBI.



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Ahmedabad

Commerce House V,
9th Floor, 902 & 903,
Near Vodafone House,
Corporate Road, Prahlad Nagar,
Ahmedabad – 380 051
Tel: +91 79 4040 2200
Fax: +91 79 4040 2244

Bengaluru

Maruthi Info-Tech Centre
11-12/1, Inner Ring Road
Koramangala, Bangalore 560 071
Tel: +91 80 3980 6000
Fax: +91 80 3980 6999

Chandigarh

SCO 22-23 (1st Floor)
Sector 8C, Madhya Marg
Chandigarh 160 009
Tel: +91 172 393 5777/781
Fax: +91 172 393 5780

Chennai

No.10, Mahatma Gandhi Road
Nungambakkam
Chennai 600 034
Tel: +91 44 3914 5000
Fax: +91 44 3914 5999

Delhi

Building No.10, 8th Floor
DLF Cyber City, Phase II
Gurgaon, Haryana 122 002
Tel: +91 124 307 4000
Fax: +91 124 254 9101

Hyderabad

8-2-618/2
Reliance Humsafar,
4th Floor, Road No.11,
Banjara Hills,
Hyderabad 500 034
Tel: +91 40 3046 5000
Fax: +91 40 3046 5299

Kochi

Syama Business Center
3rd Floor, NH By Pass Road,
Vytila, Kochi – 682019
Tel: +91 484 302 7000
Fax: +91 484 302 7001

Kolkata

Unit No. 603 – 604, 6th Floor,
Tower – 1, Godrej Waterside, Sector – V,
Salt Lake, Kolkata 700 091
Tel: +91 33 44034000
Fax: +91 33 44034199

Mumbai

Lodha Excelus, Apollo Mills
N. M. Joshi Marg
Mahalaxmi, Mumbai 400 011
Tel: +91 22 3989 6000
Fax: +91 22 3983 6000

Pune

703, Godrej Castlemaine
Bund Garden
Pune 411 001
Tel: +91 20 3050 4000
Fax: +91 20 3050 4010

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