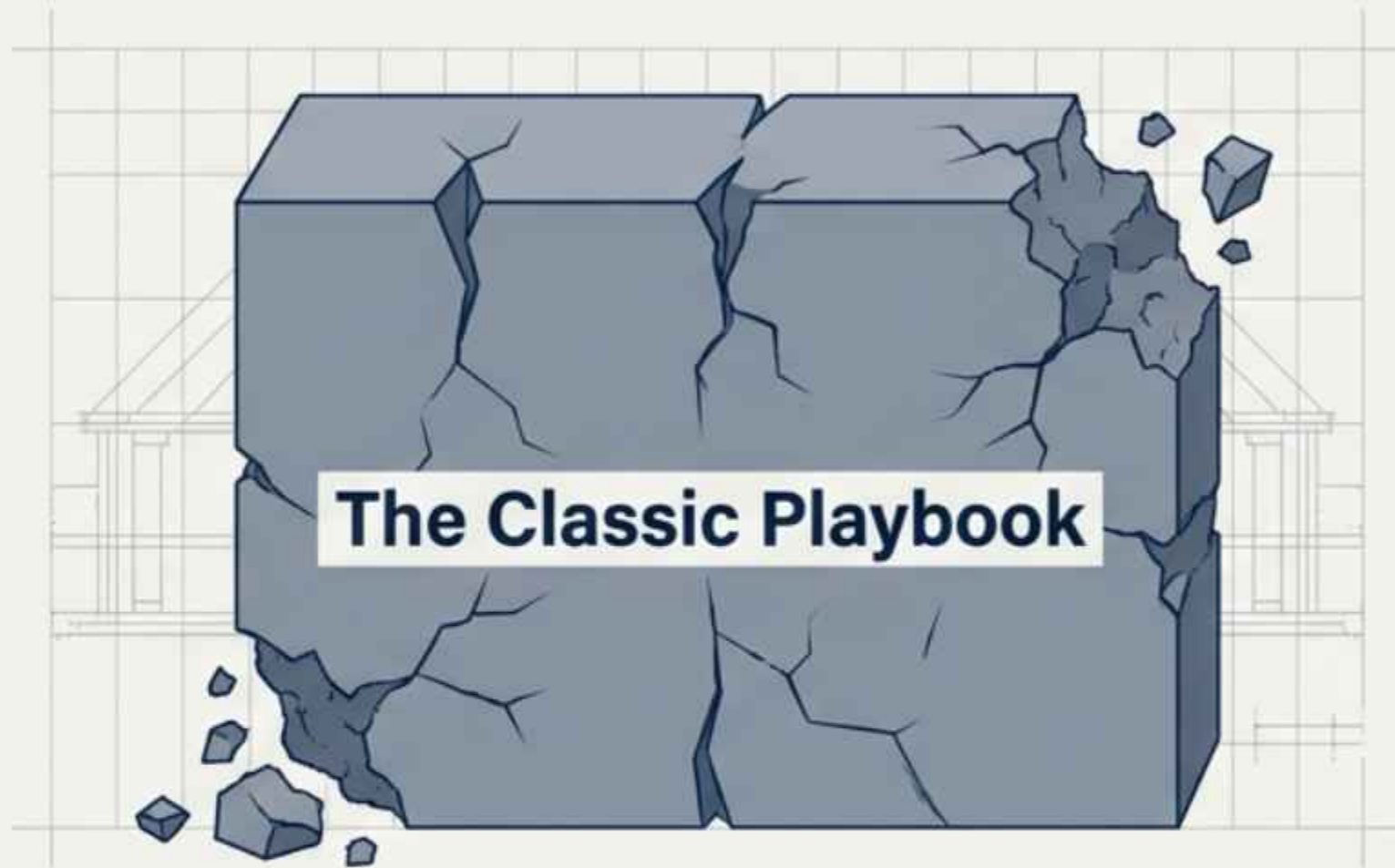


2026 Transfer Pricing for ODCs: Post-BEPS & Pillar Two

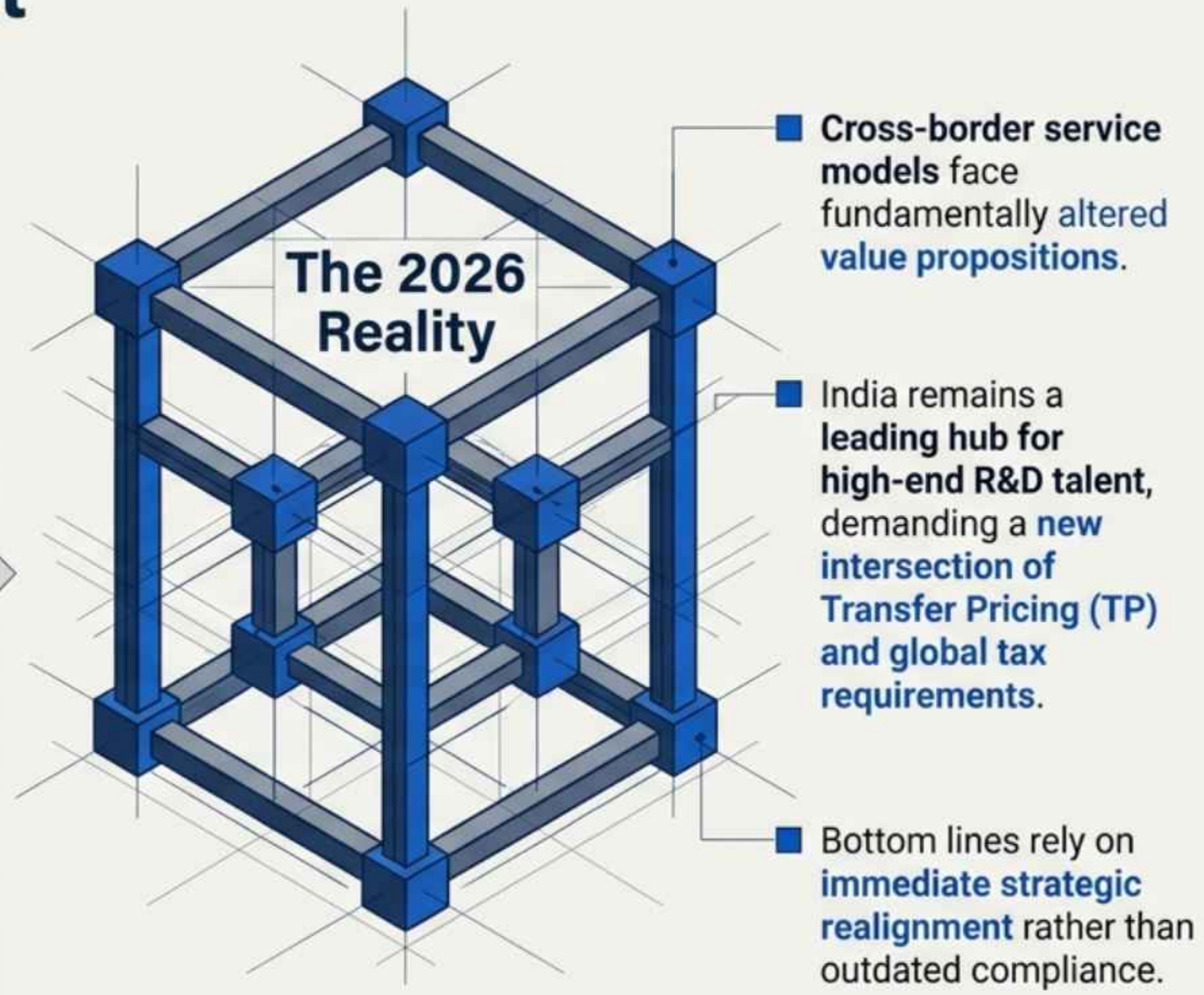
An Executive Blueprint for Strategic Realignment

Authored by Chhavi Gaur | KNM Management Advisory Services

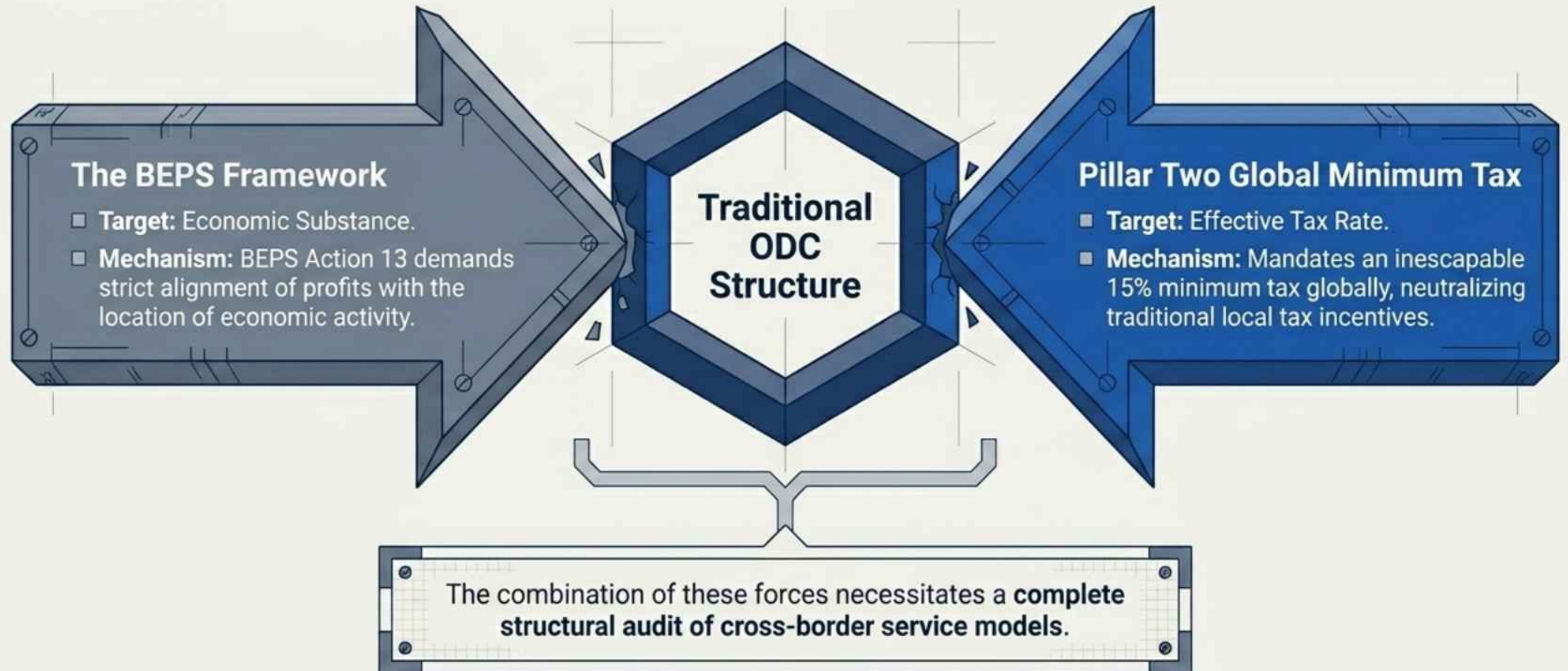
The World Tax Regime Is Experiencing a Decadal Shift



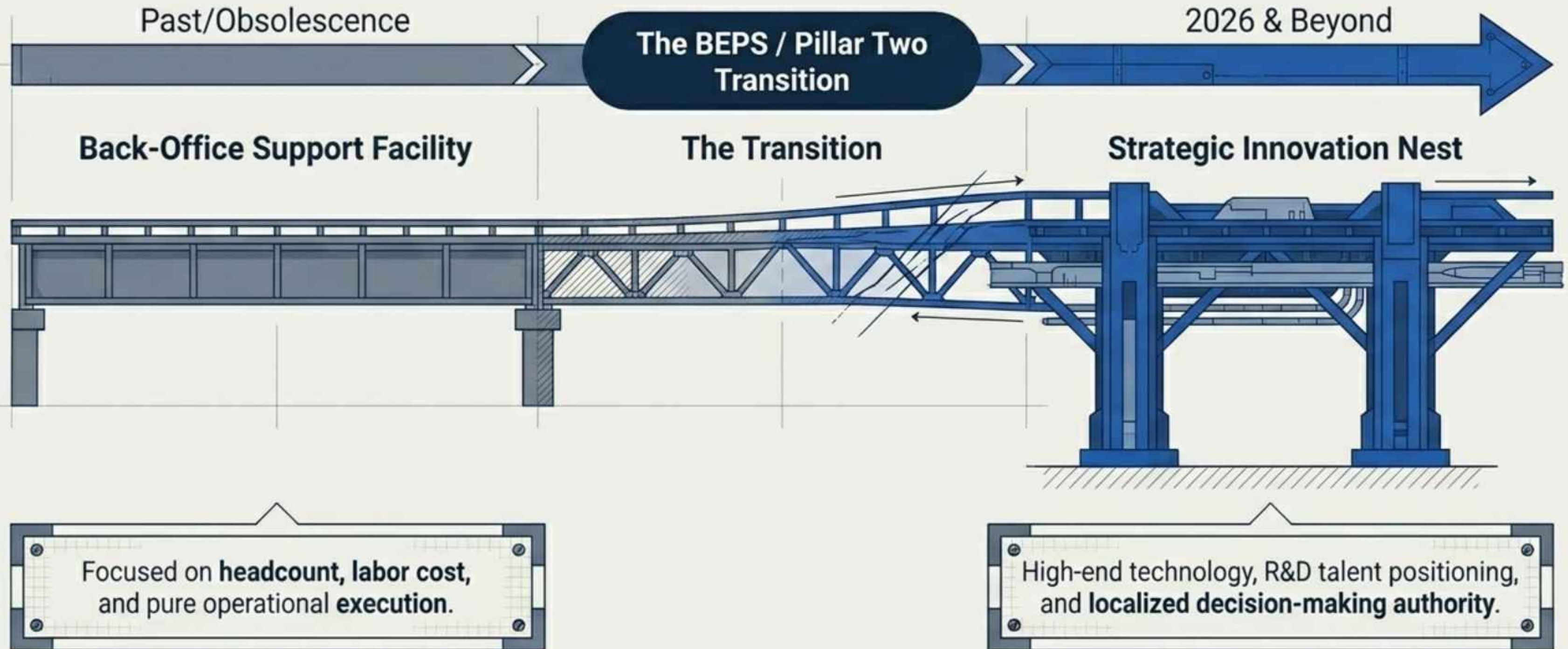
The **classic playbook** of tax optimization via cost arbitrage is now **ineffective** for **Multinational Enterprises (MNEs) operating Offshore Development Centers (ODCs) in India.**



The Macro Catalyst: A Dual-Force Regulatory Squeeze



The ODC Evolution: From Cost-Arbitrage to Value-Creation



Diagnostic Matrix: Traditional vs. Post-2026 TP Models

Transfer Pricing Dimension	The Traditional Approach	Post-2026 Reality
Primary Value Driver	Headcount & Cost	High-Value Functions (DEMPE)
Entity Classification	Limited Risk Distributor	Contract R&D / Strategic Hub
Pricing Benchmark	Local Market Comparables	Global Substance-Based Standards
Tax Rate Expectation	Low-Tax Incentives (SEZ/GIFT)	15% Global Minimum Floor
Regulatory Focus	Local & Master File	GloBE Information Return (GIR) Integration
Optimal TP Method	Cost Plus Method (CPM)	Profit-Split Approach

Defining Economic Substance: The DEMPE Framework

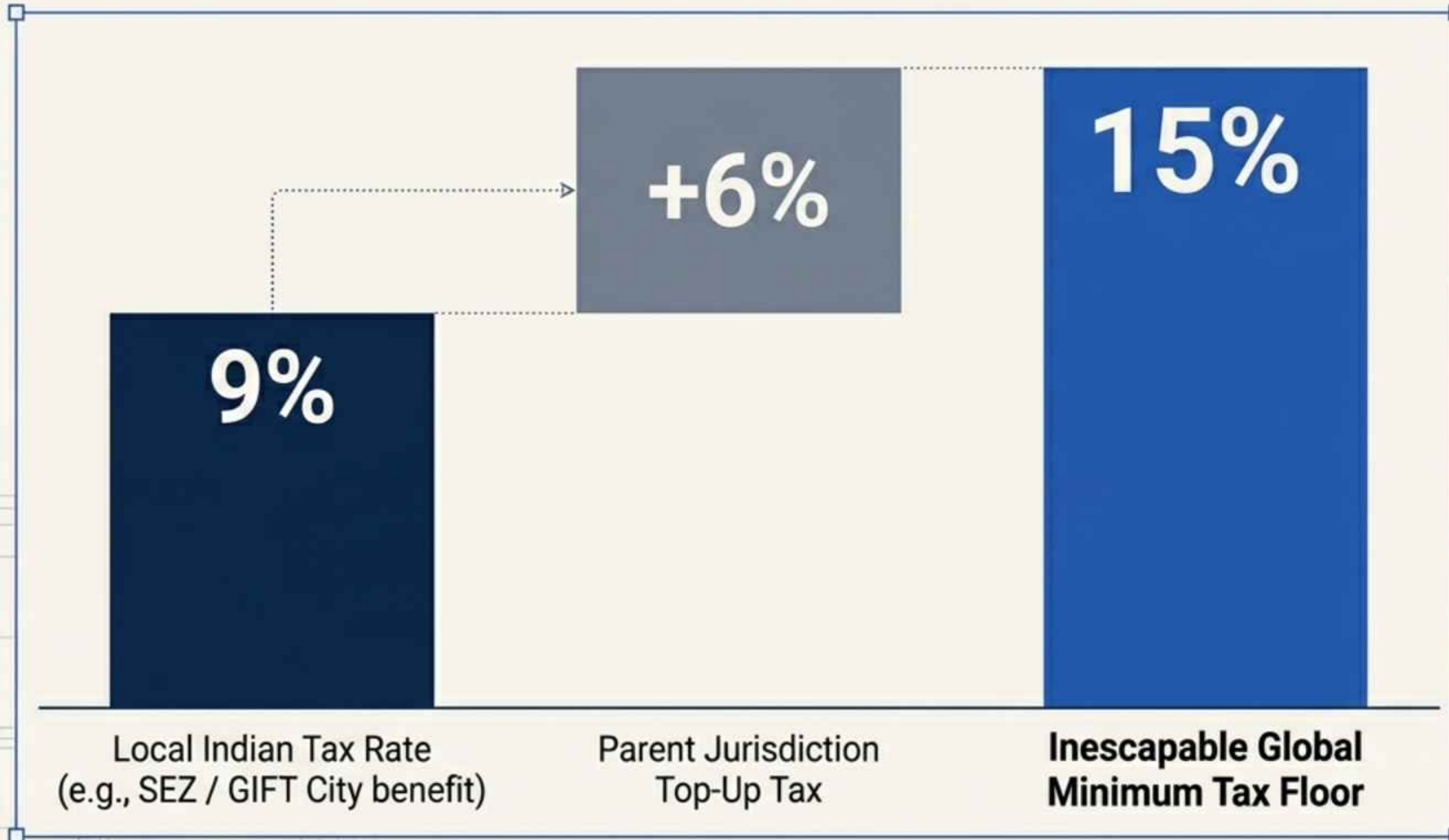


Development / Enhancement: Indian ODCs handling complex software architecture or developing intellectual property (IP).

Tax authorities increasingly look beyond contracts to identify true decision-makers.

Valuation Shift: The TP model must reflect the immense value of this strategic decision-making and IP contribution, not merely the local cost of labor.

The Mathematics of Pillar Two: Neutralizing Local Incentives



The 15% floor universally applies to MNEs with revenues over EUR750M.

Even if your ODC secures a low local rate in India, the parent jurisdiction will levy a top-up tax, rendering isolated local tax-rate arbitrage obsolete.

The Core Synthesis: The New ODC Value Equation

The Old Paradigm

$$\text{ODC Value} = (\text{Domestic Costs}) - (\text{Offshore Costs}) + (\text{Tax Arbitrage})$$

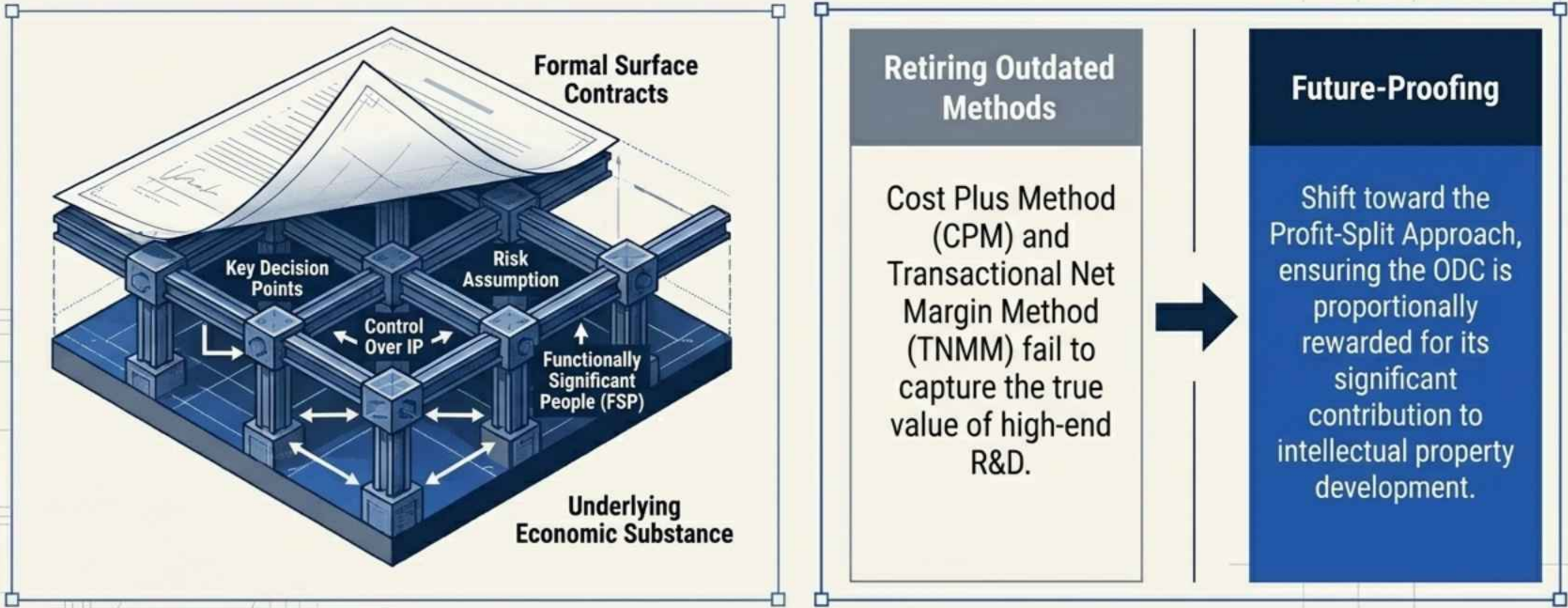
The 2026 Reality

$$\text{ODC Value} = \text{Operational Excellence} + \text{Strategic IP Contribution (DEMPE)}$$

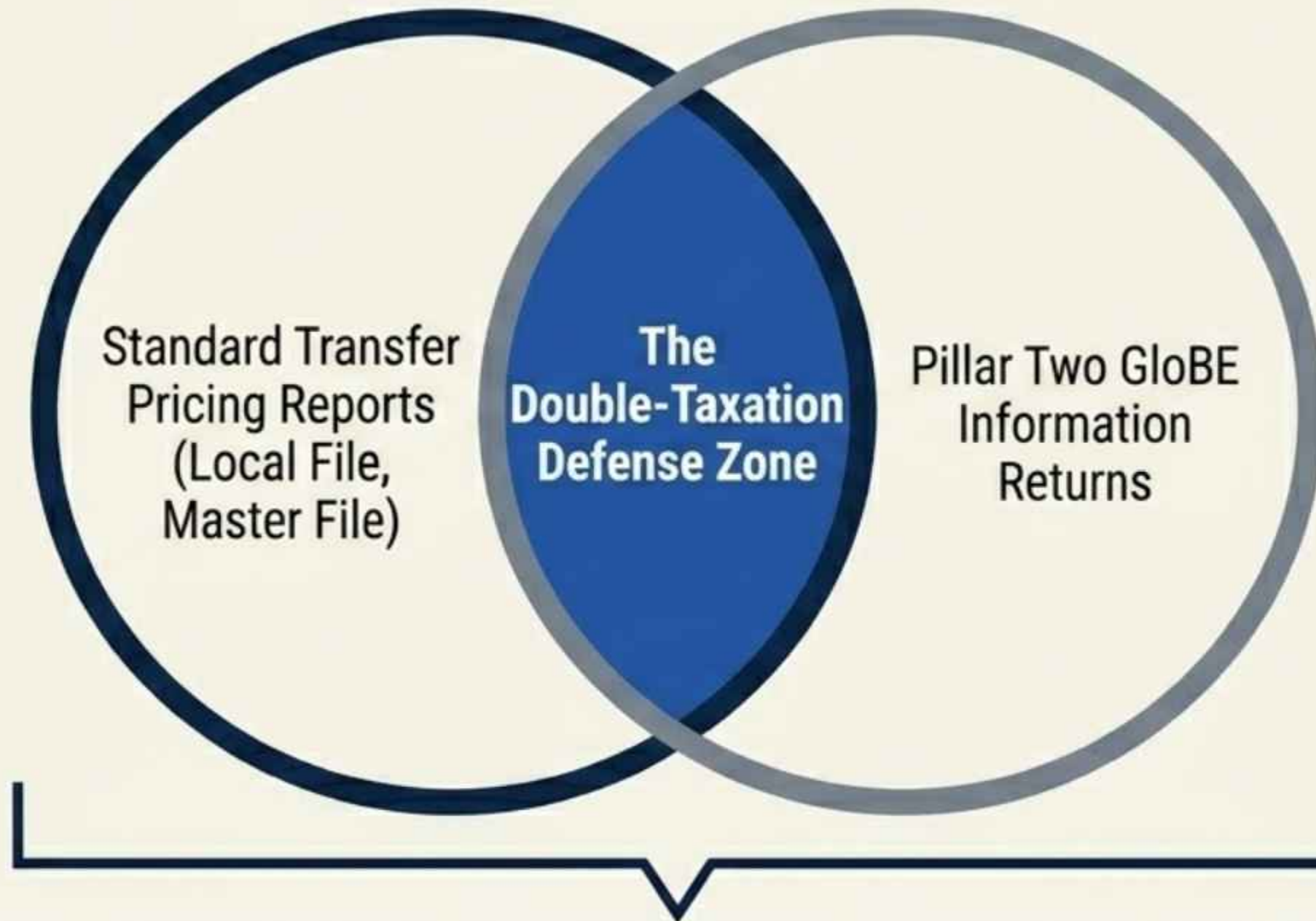
Because Pillar Two structurally neutralizes the tax arbitrage variable, MNEs must close the value gap by elevating the actual strategic output and operational excellence of their offshore centers.

Playbook Pillar I: Prioritize Substance Over Form

Tax authorities are looking past formal agreements to audit actual decision-making authority.



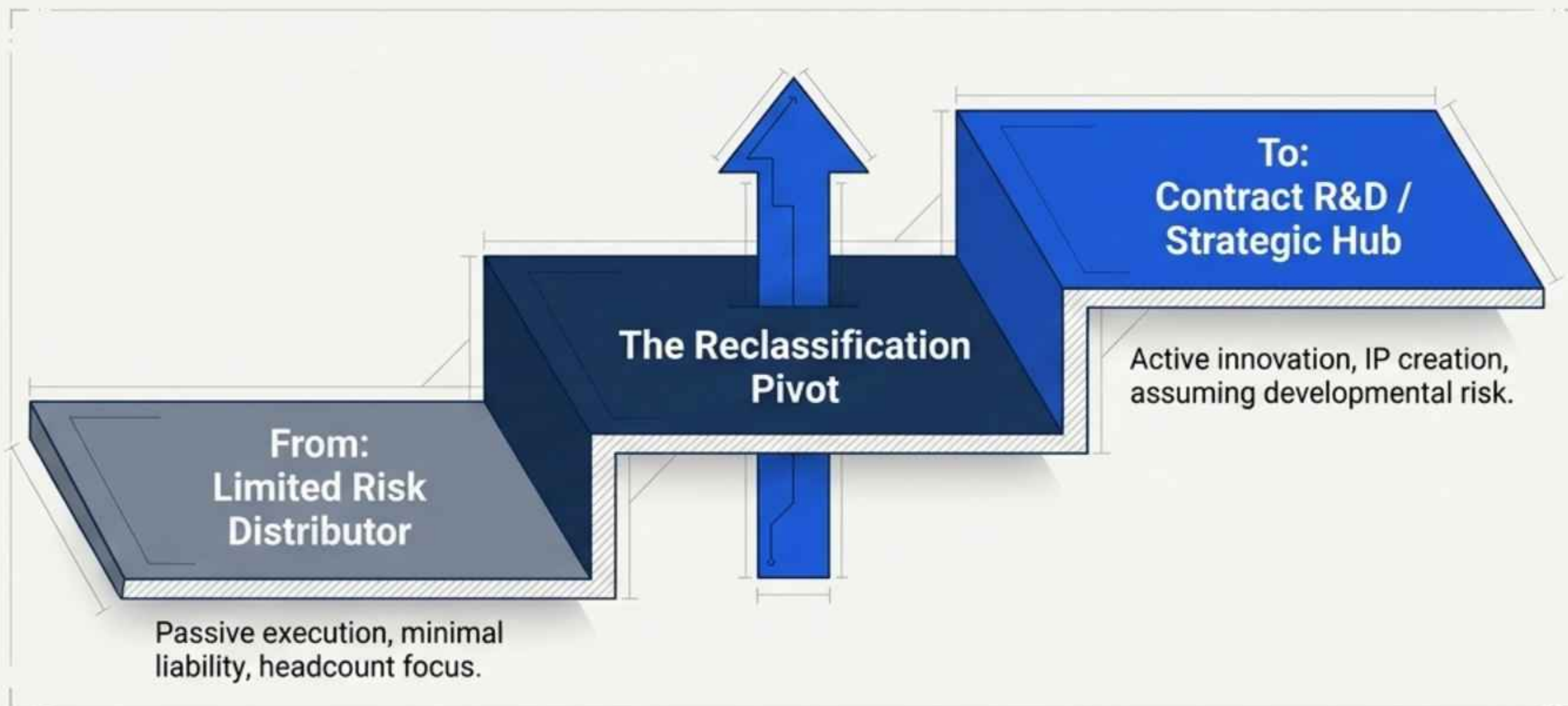
Playbook Pillar II: Data Alignment & Integration



GloBE regulations require data points that do not natively exist in traditional TP reports. Early, precise matching of these data streams is critical to avoid double taxation and minimize consolidated financial reporting costs.

Playbook Pillar III: Risk Assessment & Reclassification

As ODCs assume higher strategic importance, their risk profiles and resultant payoffs must be fundamentally recalibrated.



Takeaway:
Aligning the official risk profile with the actual ground reality of the offshore center protects against mischaracterization audits.

The Compliance & Defense Dashboard

Alert: Rules apply immediately to MNEs with global consolidated revenues exceeding EUR750M in 2 out of the last 4 years.



Master File & CbCR

Execute detailed reporting under BEPS Action 13 requirements.



Local Substance Proof

Document strict adherence to Indian Income Tax Department guidelines demonstrating local economic substance.



DEMPE Documentation

Create audit-ready trails proving actual IP contribution from the Indian entity.

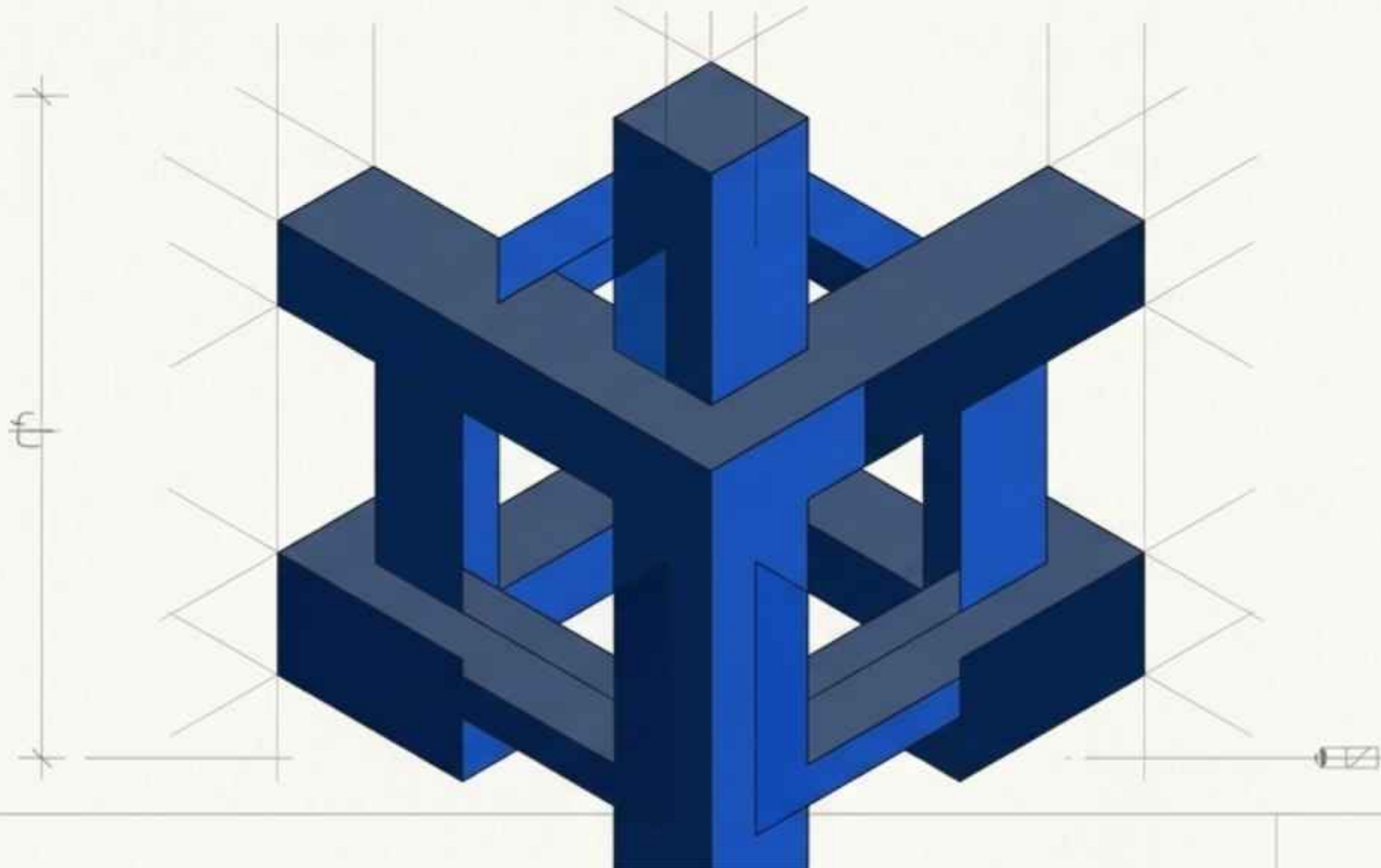


Consolidated Financials

Ensure TP mark-ups are synchronized seamlessly with global financial reporting.

The Architects of Your ODC Transition: KNM India

KNM India transforms standard offshore structures into competitive, future-proof finance and tech hubs.



Global Tax Structuring

Mastering the intersection of local Indian incentives and global Pillar Two impact tests.

Operational Excellence

Upgrading ODCs from outsourced bookkeeping to comprehensive innovation centers.

Local & Global Expertise

A highly tech-oriented team bridging the gap between Indian compliance and multinational enterprise architecture.

The 2026 Mandate

Match your tax policies to the true economic worth of your offshore development services.

Web: www.knmindia.com

Email: services@knmindia.com

Tokyo Office: +81-3-6869-0850

India Office: +91-124-4295170 | +91-99105-04170

Entity: KNM Management Advisory Services Pvt. Ltd.