



Article

May 2026



Tax Structuring for GCCs in India: Key Considerations Across Operating Models

I. Introduction

India's GCC sector has grown significantly and is now a mainstream route for multinational groups looking to build capability here. As set out in our companion article on GCC models, there are six principal structures through which a GCC can be set up: the Managed Services Model, the Captive Centre, the Build-Operate-Transfer (BOT) Model, the Hybrid Model, the Centre of Excellence Model, and the Shared Services Model.

Each model involves a different relationship between the multinational group (the foreign parent), the Indian entity (the GCC), and — where applicable — a third-party service provider. These structural differences have meaningful tax consequences. The choice of model affects the Indian entity's income tax exposure, transfer pricing obligations, the risk of the multinational group constituting a permanent establishment (PE) in India, and the GST treatment of outbound services. In the BOT model, there are also capital gains implications to consider on transfer.

This article provides a brief overview of the key Indian tax considerations across all six models. It should be read alongside our companion article and is intended as a starting point for planning — specific tax advice should always be obtained before committing to a structure.

II. Income Tax – The Indian Entity

In the Managed Services model, the multinational group has no Indian entity. The service provider handles its own tax. The multinational group's only exposure is the PE risk discussed below.

In the Captive Centre, Hybrid, Centre of Excellence and Shared Services models, the Indian entity receives service fees from the multinational group. These are taxable as business income at the applicable corporate tax rate (currently between 22% and 30% depending on various factors, plus surcharge and cess), with an option to opt for a concessional regime for domestic companies. The taxable profit is usually modest if fees are structured on a cost-plus basis, which is also the standard transfer pricing approach.

The BOT model has two stages. Pre-transfer, the service provider is taxed on its GCC income — the multinational group has no Indian tax exposure other than PE risk. Post-transfer, the Indian entity is taxed like a captive centre. However, the transfer itself triggers capital gains tax for the service provider: where the GCC is transferred as a business undertaking, Section 77 of the Income Tax Act, 2025 (“IT Act”) applies to the profits or gains arising from the slump sale. Where shares are transferred, Section

67 read with the relevant computation and valuation provisions applies. These consequences need to be built into the BOT pricing and the service agreement from day one — they are often not, and this can lead to unwarranted disputes.

One additional point for the Centre of Excellence model: where the entity is engaged in scientific research, deductions under section 45 of the IT Act may reduce the effective tax rate. This should be carefully examined at the planning stage since a domestic company opting for the concessional regime may not be entitled to claim the specified scientific research deduction.

III. GST

In most GCC structures, the Indian entity provides services to the multinational group outside India. Subject to satisfaction of the prescribed conditions, such services should qualify as export of services under Section 2(6) of the IGST Act, 2017, and is therefore zero-rated under Section 16. In practice, most entities opt to supply under a Letter of Undertaking and claim a refund of unutilised input tax credit, rather than paying IGST and seeking a refund — the former avoids the cash flow cost.

The key condition to watch is that the supplier and recipient must not be "distinct persons" under Explanation 1 to Section 8 of the IGST Act. This issue does not typically arise where the Indian entity is a separate subsidiary of the multinational group (which is the case in the Captive Centre, Hybrid, Centre of Excellence, and Shared Services models). It is worth confirming in each case nonetheless.

In the Hybrid model, the service provider's fees to the Indian entity are a domestic transaction and attract GST — though the Indian entity can claim input tax credit on this.

In the BOT Model, if the transfer qualifies as a going concern, it would likely be exempt from GST.

IV. Transfer Pricing

Transfer pricing is the most consistently significant tax issue across all models where the Indian entity is an associated enterprise of the multinational group. Under Chapter X of the IT Act, all cross-border transactions between related parties must be at arm's length.

For GCC service arrangements, the most commonly used method is the Transactional Net Margin Method (TNMM), benchmarking the Indian entity's operating margin against comparable independent service companies. A cost-plus markup of 8%–15% is typically accepted for routine captive service entities. The Cost Plus Method is also used where services are well-defined and risks are limited.

Transfer pricing documentation is mandatory where the aggregate value of international transactions exceeds INR 1 crore in a year. For larger GCCs, an Advance Pricing Agreement (APA) with the CBDT can provide certainty on the transfer pricing methodology and arm's length price for up to five years (with a possible rollback of four years under both unilateral and bilateral APA). Once operations are established and volumes justify it, an APA is strongly recommended.

In the Managed Services model, no transfer pricing obligation arises — the service provider is an independent entity. In the BOT model, the transfer of the GCC from the service provider to the Indian entity is not, strictly speaking, a transfer pricing transaction under Chapter X since the parties are typically not associated enterprises. That said, the transfer consideration still needs to be commercially supportable: for the service provider, to establish its capital gains base under Section 77, applies to slump sale; and for the Indian entity, to establish the cost of the acquired assets. There is one important qualification: if, during the operate phase, the multinational group has exercised such significant control over the service provider that its independence is questionable in substance — for example, by directing day-to-day staffing decisions, bearing the economic risk of the GCC's operations, providing critical IP without adequate compensation, or funding the service provider's costs directly — Indian tax authorities could seek to recharacterize the arrangement resulting in potential transfer pricing and permanent establishment exposure for the multinational group. The degree of operational separation between the

multinational group and the service provider during the BOT operate phase therefore needs to be actively maintained and documented.

V. Permanent Establishment Risk

PE risk is the most significant tax concern for the multinational group itself. If a PE is found to exist in India, the profits attributable to it are taxed in India at the rate applicable to foreign companies. Three types of PE are relevant to GCC structures:

- **Fixed Place PE:** This arises where the multinational group has a fixed place of business in India through which it carries on its business. In models with a separate Indian subsidiary (Captive Centre, Hybrid, etc.), the subsidiary is not itself a PE. The risk arises if the multinational group's own employees or executives are habitually present in India conducting substantive business — not merely oversight or review.
- **Service PE** arises under several of India's tax treaties (including with Germany and the Netherlands) where the multinational group provides services in India through its employees for more than a specified period (may be 90 days, 183 days, six months or another specified period, depending on the relevant treaty). Expatriate secondments need to be structured carefully with this in mind.
- **Agency PE:** This arises where a person in India habitually concludes contracts, or plays the principal role in concluding contracts, on behalf of the multinational group. Following India's adoption of the post-BEPS Article 5(5) through the Multilateral Instrument, the definition is broader than before. This risk is most relevant in the Managed Services and pre-transfer BOT models, where a third-party service provider exercises significant operational authority on behalf of the multinational group.

Across all models, maintaining genuine arm's length pricing significantly reduces PE exposure. Where the Indian entity or service provider is properly remunerated for its functions and risks, there is less basis for attributing additional profits to a PE. Having said that, it is important to ensure that the structure is thoroughly analysed by a professional, as nuances need to be considered.

VI. Additional Note-Worthy Points

Withholding Tax on Outbound Payments: Where the multinational group licenses IP or software to the Indian entity, payments from the Indian entity to the multinational group may be subject to withholding tax under Section 393(2) of the IT Act, to the extent such payments are chargeable to tax in India. The applicable rate depends on the nature of the payment (royalty, fees for technical services, etc.) and the relief available under relevant tax treaty. Following the abolition of Equalisation levy with effect from 1 April 2025, such payments should generally fall within the standard income-tax and treaty framework. Groups should ensure that IP and software licensing arrangements are reviewed from a withholding tax and PE perspective accordingly.

Indirect Transfer: If the multinational group holds its India investment through an overseas holding company, and the Indian GCC represents a substantial part of the holding company's value, any transfer of shares in the overseas entity could trigger Indian capital gains tax under Section 9(10)(a) of the IT Act. This would be relevant where the foreign shares or interest derive substantial value from assets located in India, subject to the prescribed thresholds, valuation rules and treaty relief, if any.

VII. Summary

The table below provides a quick reference across all six models.

Model	Income Tax (Indian entity)	Transfer Pricing	PE Risk	GST	CGT on Transfer
Managed Services	N/A	N/A	High	Low	N/A
Captive Centre	Taxable	High	Low	Low	N/A
BOT (pre-transfer)	N/A	N/A	High	Low	N/A
BOT (post-transfer)	Taxable + CGT	High	Low	Low	Yes
Hybrid	Taxable	High	Medium	Medium	N/A
Centre of Excellence	Taxable	High	Low–Med	Low	N/A
Shared Services	Taxable	High	Low	Low	N/A

Risk ratings are indicative. Low = manageable with standard structuring. Medium = specific steps required. High = careful planning and ongoing compliance needed.

CGT = capital gains tax on transfer. PE = permanent establishment. Transfer Pricing risk refers to the compliance and audit exposure of the Indian entity.

VIII. Conclusion

The tax implications of a GCC cannot be separated from the structural choices made at the outset. A few points are worth keeping in mind across all models. First, arm's length pricing is critical for managing transfer pricing exposure and reducing the risk of PE— getting this right from the start reduces exposure on both fronts. Second, the BOT model's capital gains consequences are consistently under planned — the transfer valuation and mechanics need to be agreed before the BOT arrangement begins, and the degree of operational independence of the service provider must be actively maintained throughout. Third, the Managed Services model is administratively simple and low on transfer pricing compliance, but carries the highest PE risk if the multinational group is too involved in day-to-day decisions.

For most groups entering India for the first time, the Captive Centre remains the most straightforward and tax-efficient structure — particularly once a transfer pricing study and, in due course, an APA, are in place. The right choice will always depend on the specific facts, and tax advice should be obtained early.

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