Quartyl — Transfer Pricing OS

Local File Documentation Checklist

Rule 10D of the Income-tax Rules, item by item — with the penalty exposure of getting it wrong.

Checklist · India transfer pricing documentation

Section 92D of the Income-tax Act requires every person who has entered into an international transaction (or a specified domestic transaction) to maintain contemporaneous documentation. Rule 10D prescribes what that documentation must contain — and it is the backbone of any defence before the Transfer Pricing Officer. Contemporaneity is the rule: the file must exist before the due date of the return of income. A file assembled after a notice is not contemporaneous.

Part A — The Rule 10D items

Item	What it must show
1. Business & management overview	Ownership structure, management and organisation, business strategies
2. Industry & economic conditions	The industry, market, competition and supply chains
3. FAR profile	Functions performed, risks assumed, assets employed by each enterprise
4. Controlled transactions	Nature, terms and conditions, amount, and counter-party details
5. Uncontrolled transactions	Transactions with unrelated parties relied upon as comparables
6. Method selection	The transfer pricing method chosen, and why it is the most appropriate
7. Assumptions & interpretations	The assumptions relied upon and the legal interpretation applied
8. Adjustment workings	The arithmetic and data behind any transfer pricing adjustment
9. Comparable identification	Search screens, the comparable pool, and the rationale for each inclusion
10. Exclusion rationale	The documented reason for every comparable rejected (the Accept-Reject matrix)
11. Arm's-length working	The computation of the arm's-length price and range
12. Supporting information	Any other data, statistics or documents relied upon
13. Annual update	Data refreshed each year; prior-year comparables re-screened

The emphasis on the exclusion rationale (item 10) is deliberate: an Accept-Reject matrix without a documented reason per comparable is the fastest route to an adjustment, because the TPO can substitute their own pool and recompute the range.

Part B — Beyond Rule 10D

- Form 3CEB (s.92E) — the accountant's report on the taxpayer's international transactions, filed with the return, with supporting Annexures A and B.
- Master File & CbCR (Rule 10DA / Rule 10DB) — separate obligations for large groups, not a substitute for the Local File under Rule 10D.
- Safe Harbour Rules (Rule 10TD) — an election that fixes margins for eligible transactions and can eliminate the comparability fight altogether.

Part C — Penalty exposure

Provision	Failure	Penalty
s.271AA	Not maintaining or keeping contemporaneous documentation	2% of the value of each international transaction
s.271G	Failure to furnish information or documentation on notice	2% of transaction value, or INR 2,00,000 if not determinable
s.271BA	Failure to furnish the Form 3CEB report	INR 1,00,000

Part D — Defending the matrix before the TPO

1. Document as you go — reasons recorded at screening time are credible; reasons invented during assessment are not.
2. Screen at the tested party's level — the exclusion rationale must mirror the tested party's FAR profile, not generic boilerplate.
3. Quantify the impact — when a borderline comparable is included, show what it does to the range in both directions.
4. Keep the working files — turnover screens, related-party percentages and data-year snapshots belong in the working paper trail.
