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INCOME-TAX ACT, 2025

Chapter X: SPECIAL PROVISIONS RELATING TO AVOIDANCE OF TAX

Section 165 - Determination of arm's length price.

(1) The arm’s length price in relation to an international transaction or specified domestic transaction shall be determined by any of the following methods, being the most appropriate method––

(a) comparable uncontrolled price method;

(b) resale price method;

(c) cost plus method;

(d) profit split method;

(e) transactional net margin method;

(f) such other method as may be prescribed by the Board.

(2) The most appropriate method referred to in sub-section (1) shall be,––

(a) selected having regard to the nature of transaction or class of transaction or class of associated enterprise or functions performed by such enterprises or such other relevant factors as the Board may prescribe;

(b) applied for determination of arm’s length price in such manner as may be prescribed.

(3) The arm’s length price shall be—

(a) in case, only one price is determined by the most appropriate method,––

(i) the price determined by that method; or

(ii) the price at which the international transaction or specified domestic transaction has actually been undertaken, if the variation between the arm’s length price so determined and price at which the international transaction or specified domestic transaction has actually been undertaken does not exceed such percentage not exceeding 3% of the latter, notified by the Central Government in this behalf; or

(b) in case, more than one price is determined by the most appropriate method, the price determined in such manner as may be prescribed.

(4) The Assessing Officer, during the course of any proceeding for the assessment of income, may proceed to determine the arm’s length price in relation to an international transaction or specified domestic transaction as per sub-sections (1), (2) and (3) if, on the basis of material or information or document in his possession, he is of the opinion that—

(a) the price charged or paid in an international transaction or specified domestic transaction has not been determined as per sub-sections (1), (2) and (3); or

(b) any information and document relating to an international transaction or specified domestic transaction has not been kept and maintained by the assessee as per section 171(1); or

(c) the information or data used in determination of the arm’s length price by the assessee is not reliable or correct; or

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(d) the assessee has failed to furnish, within the specified time, any information or document which he was required to furnish by a notice issued under section 171(2) and (3).

(5) The Assessing Officer, before determining the arm's length price under sub-section (4), shall issue a notice calling upon the assessee to show cause, on the date and time to be specified in the notice, why the arm's length price should not be determined on the basis of material or information or document in the possession of the Assessing Officer.

(6) The Assessing Officer, on determination of arm's length price under sub-section (4), may compute the total income of the assessee having regard to the arm's length price so determined.

(7) No deduction shall be allowed under Chapter VIII in respect of income by which the total income of the assessee is enhanced after computation of income under sub-section (6). [1]

(8) When the total income of an associated enterprise is computed under sub-section (6) on determination of the arm's length price paid to another associated enterprise from which tax has been deducted or was deductible under the provisions of Chapter XIX-B, the income of the other associated enterprise shall not be recomputed by reason of such determination of arm's length price in the case of the first mentioned enterprise.

1. Omitted by The Finance Act, 2026

"under section 144 or"

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