

Central Board of Direct Taxes (CBDT), vide issuance of Income Tax (9th Amendment) Rules, 2020 has notified Safe Harbour Rules (SHR) for Assessment Year (AY) 2020-21. As per the notification, rates applicable from AY 2017-18 to 2019-20 will continue to apply for AY 2020-21.

Introduced in 2009, safe harbour rules provides for circumstances in which a certain category of taxpayers can follow a simple set of rules and rates under which transfer price that are aligned to such rules are automatically accepted by the revenue authorities. It aims to provide an element of certainty to taxpayers. A safe harbour regime, benefits taxpayers in the services sector by adopting a transfer pricing mark-up at the rate prescribed to avoid protracted litigation.

Post 2009, first round of SHR provisions were introduced in August 2013 for a period of 3 years, followed by revision in 2017 in the SHR which were applicable till Financial Year (FY) 2019.

In the past, SHR have been notified for more than one year, normally for three years at a stretch. However, considering the impact of COVID-19 on business for FY 2020-21, it appears that the government has decided to announce only for one year, i.e. limited to FY 2019-20. We expect the government to rationalise the rate under SHR for FY 2020-21. This would go a long way in making this scheme more attractive for the taxpayers at large and provide tax certainty to business on the crucial aspect of transfer pricing.

**Contact Us:**

**Delhi**  
A-15, Second Floor, Hauz Khas, New Delhi - 110016  
(India)  
Ph: +91 011 41655801, 41655802  
Fax: +91 11 26567540

**Bangalore**  
No 605, Second Floor, 62nd Cross, 5th Block, Rajajinagar,  
Bangalore Karnataka - 560010 (India)  
Ph: +91 80 42064178

**Pune**  
Flat No- 2A, Gangotri Complex,  
Near Geeta Society, Camp, Pune 411001 (India)  
Ph: +91 020 30492191

E-mail: [snr@snr-company](mailto:snr@snr-company)  
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