

AI in Transfer Pricing: The Blessing and the Curse for Related-Party Transactions

By R. Mahesh & Associates, CA | 3 April 2026 | 10 min read

How AI is making related-party links traceable even without disclosure, killing opacity in global transactions, and making profit-shifting harder in an AI-structured data world.

For decades, transfer pricing operated on a fundamental assumption: that **related-party relationships must be disclosed** before they can be scrutinised. **AI has ended that assumption.** In 2026, tax authorities are deploying AI that can **detect related-party relationships from transactional data patterns alone.**

SECTION 01

The Blessing: What AI Does for the TP Practitioner

<p>Automated Benchmarking [Blessing]</p> <p>AI scans millions of comparables in minutes. It identifies the most appropriate matches, adjusts for working capital, geography, and risk, and generates the arm's length range — replacing weeks of manual TNMM/CUP analysis.</p>	<p>Documentation at Scale [Blessing]</p> <p>Master File, Local File, CbCR — AI agents auto-draft from ERP data, populate from group disclosures, and prepare CbC reports with full traceability. The BEPS Action 13 burden is dramatically reduced.</p>
<p>Real-Time Margin Monitoring [Blessing]</p> <p>AI monitors tested-party margins against the arm's length range continuously. If the margin drifts outside the IQR mid-year, the system flags it for a pricing adjustment before the year closes.</p>	<p>APA & Safe Harbour Modelling [Blessing]</p> <p>AI simulates whether Safe Harbour (Rules 10TA–10TG) or an APA (Section 92CC) is better. It models pricing scenarios, calculates tax outcomes, and recommends the optimal route in minutes.</p>

SECTION 02

The Curse: How AI Exposes What Disclosure Never Did

"In a pre-AI world, a related-party relationship existed for tax purposes only when it was declared. In a post-AI world, the data declares it whether the taxpayer does or not."

<p>Detecting Undisclosed Relationships [Curse]</p> <p>AI identifies related-party links from patterns — recurring counterparties with identical pricing, shared directors, complementary FAR profiles, or financial performance moving in lockstep. No Form 3CEB needed.</p>	<p>Flagging Profit Shifting [Curse]</p> <p>AI cross-references CbC reports with local filings across jurisdictions. When an Irish subsidiary reports 40% margins while the Indian entity reports 3% for identical functions, the AI flags it instantly.</p>
<p>Tracing Value Chain Flows [Curse]</p> <p>AI reconstructs value chains from public data — annual reports, customs, GST, corporate registry. It maps where value is created vs. where profits are booked, exposing misalignments in months not years.</p>	<p>Automated Audit Selection [Curse]</p> <p>CBDT already uses analytics for high-risk TP cases. With AI, selection is pattern-based, not threshold-based. Unusual pricing or inconsistent CbCR data triggers automatic scrutiny.</p>

SECTION 03

Five Scenarios Where AI Changes the Outcome

Real-world scenarios that transfer pricing practitioners in India encounter regularly — and how AI changes each outcome:

Scenario	Without AI (Old World)	With AI (New World)
IT services priced below ALP to overseas AE	Discovered only if AO manually reviews TP study. Often survives if documentation is "good enough."	AI cross-references margin with 500+ comparables in real time. Flags deviation before assessment. Recommends mid-year price adjustment.
Management fee with no tangible benefit to Indian sub	Hard to challenge unless AO understands the specific service. Often accepted with generic "benefit test" documentation.	AI matches fee patterns across the group globally. India pays 8%, others pay 2% — anomaly is instant. Also checks for "shareholder activities" under OECD Chapter VII.
IP royalty paid to shell in low-tax jurisdiction	Requires TPO to understand IP value chain and challenge DEMPE functions. Resource-intensive investigation.	AI traces DEMPE functions across entities — where R&D spend occurs, patents filed, marketing booked. Exposes shells with zero substance instantly.
Intercompany loans at non-arm's length interest rates	Benchmarked against a few manually selected comparable loans. Easy to justify with selective comparable selection.	AI accesses real-time corporate bond and loan databases, adjusts for credit rating, tenor, currency, and security. Market-rate range generated in seconds.
Entity restructuring shifting risk to offshore entity	Requires extensive FAR analysis by TPO. Often goes unchallenged due to resource constraints.	AI compares pre/post-restructuring profit allocation against headcount, assets, and decision-making authority. 80% people stay but 70% profit moves — BEPS risk flagged.

SECTION 04

The Death of Opacity in Global Transactions

The most profound consequence of AI in transfer pricing is the **structural elimination of opacity** in cross-border transactions. In 2026, a tax authority has access to:

THE DATA THAT AI CAN NOW CONNECT

AIS / TIS data — every financial transaction reported by Indian entities. **CbC Reports** — revenue, profit, tax, employees by jurisdiction for every MNE above threshold. **GST filings** — real-time transaction-level data on every B2B supply, including intercompany. **MCA / ROC filings** — director interlocks, shareholding patterns, related-party disclosures. **Customs data** — import/export pricing, valuation declarations, trade volumes. **FEMA / RBI data** — foreign remittances, overseas investments, ECB filings. **Public CbCR (2026)** — first year most MNEs publish public Country-by-Country reports.

THE CRITICAL SHIFT

In the old world, the burden was on the tax authority to **prove** that a related-party relationship existed and prices were not at arm's length. In the AI world, the data creates a **presumption** — and the burden shifts to the taxpayer to explain why the patterns don't mean what they appear to mean. This is not a legal shift — it is a practical one. And it is already happening.

SECTION 05

What This Means for Indian MNEs and Their CAs

OLD TP PLAYBOOK

- X Prepare TP documentation annually as a compliance exercise
- X Select comparables that support the desired margin range
- X Rely on the "3% tolerance band" to avoid adjustments
- X Treat Form 3CEB as a disclosure formality
- X Assume the TPO cannot see the full global picture
- X Structure entities to minimise disclosure triggers

AI-ERA TP REALITY

- + Real-time margin monitoring with mid-year corrections
- + Comparables validated by AI — cherry-picked selections flagged
- + 3% band survives legally but AI detects systematic patterns
- + Every cross-border flow visible to CBBDT before you file
- + CbCR + GST + customs + FEMA cross-matched by AI
- + Structures without substance exposed by FAR-profit mapping

SECTION 06

The CA's New Role: From Documenter to AI-Age TP Strategist

For Chartered Accountants serving Indian subsidiaries of MNEs or Indian companies with overseas operations, the role is evolving:

<p>Proactive Risk Assessment [New Role]</p> <p>Run AI-assisted risk assessments during the year, not after. Is the client's margin within arm's length range now? Will it be by March 31? Recommend price adjustments before the year closes.</p>	<p>Substance Verification [New Role]</p> <p>Verify every entity has real people, real assets, real decision-making authority, and a genuine FAR profile justifying its profit allocation. If it doesn't, restructure before the AI finds it.</p>
<p>CbCR Consistency Checks [New Role]</p> <p>Run consistency checks between CbCR, Master File, Local File, and Indian tax returns — before the tax authority's AI does it. Inconsistencies are the #1 TP audit trigger in 2026.</p>	<p>Dispute-Ready Defence Files [New Role]</p> <p>Go beyond the legal minimum. Build reconciliation between statutory accounts and TP study, signed intercompany agreements, method memos explaining why alternatives were rejected.</p>

SECTION 07

The Indian Regulatory Landscape in 2026

India's transfer pricing framework under Chapter X (Sections 92 to 92F) is one of the most comprehensive in the developing world. With AI enforcement, the regulatory bite is sharper:

KEY PROVISIONS FOR TP PRACTITIONERS

Section 92: Mandates arm's length pricing for all international transactions and SDTs above Rs.20 crore.

Section 92A: Defines "associated enterprise" — 13 criteria including 26% voting power, common management, IP dependence. AI now detects these from data patterns even when undeclared.

Section 92C: 6 methods for ALP determination (CUP, RPM, CPM, PSM, TNMM, Other Method). AI benchmarking makes it harder to justify method choice when AI selects a different one.

Section 92D & 92E: Documentation and CA certification via Form 3CEB. With public CbCR from 2026, this data will be cross-verified against published reports for the first time.

CBDT APA Programme: 174 APAs signed in FY 2024-25 — the highest ever. Reflects growing preference for certainty in an AI-uncertain enforcement environment.

Safe Harbour (Rules 10TA to 10TG): Extended for AY 2025-26 and AY 2026-27. IT/ITES minimum margin at 18%, R&D at 24%. Threshold raised to Rs.300 crore.

Multi-year ALP: Block-of-three-year ALP determination for similar SDTs, effective from April 2026. Reduces annual volatility but demands consistent documentation across years.

IN PERSPECTIVE

The Dual Edge of AI in Transfer Pricing

AI in transfer pricing is the operating reality of 2026. On one side, it gives practitioners unprecedented tools for compliance, benchmarking, and advisory. On the other, it gives tax authorities the ability to see through structures, detect undisclosed relationships, and flag profit shifting at a scale never before possible.

The blessing and the curse are the same technology. The difference is which side of the table you sit on — and how well you've prepared.

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