

Draft Income Tax Rules

Advance Pricing Agreement

February 2026

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Background

The draft Income-tax Rules, 2026 (“Draft rules”) have recently been released by CBDT and are open for public comments until 22 February 2026. As part of the new framework, the draft rules relating to Advance Pricing Agreements (APA) have been notified and are proposed to replace the existing APA rules under the Income-tax Rules, 1962.

The APA mechanism is a prospective transfer pricing certainty tool that enables taxpayers to agree in advance with the tax authorities on the arm’s length pricing methodology for specified international transactions for a fixed period.

The existing regime prescribes detailed procedures covering application, pre-filing consultation, negotiation, execution of the agreement, annual compliance reporting, compliance audit by the Transfer Pricing Officer, interaction with the Mutual Agreement Procedure in bilateral or multilateral cases, and tax relief mechanisms arising from APA adjustments, including secondary adjustments. It operates through prescribed forms, defined timelines, and a structured administrative process involving the APA authorities, Competent Authority, jurisdictional officers, and the TPO.

The draft Rules propose a restructuring of the APA framework, including realignment of rule references with the new Act, substitution and renumbering of prescribed forms, rationalisation of certain procedural requirements, modifications to prescribed fees and timelines, and other structural and drafting changes in reporting and processes.

The key changes are discussed in detail in the ensuing paragraphs.



Key changes in new APA rules

Key changes in the Draft rules in respect of APA are provided below:

1. The authority is assigned to Principal Commissioner of Income Tax as against Director General of Income Tax in the existing rules
2. APA filing fee – the existing tier-based structure, is replaced with a standard fee of INR 20 lakh irrespective of the value of international transactions. Pursuant to this, in case of any amendment in the APA application which results in increase in value of international transactions, there may not be any impact on the application fee paid
3. It is clarified that pre-filing consultation is not applicable in cases of renewal of APA

4. The existing form No. 3CEE is scrapped and accordingly “Withdrawal of APA application” can be done through an intimation letter, thereby simplifies the procedure
5. The timeline for rectification of defective application has been now rationalised to 30 days
6. Rollback –
 - a. There is no separate form to be filed for Rollback of APA. However additional fee of INR 5 lakhs remains;
 - b. The option to cover the prior years under APA is now subsumed in the main APA application i.e., Form 51;
 - c. Under the existing rules, the applicant was allowed to file rollback application anytime during the process of the APA, however under the New Draft rules, the same is not explicitly mentioned.
7. The proceedings upon filing the application i.e., holding meetings with applicant, calling for documents / information through questionnaires, site visit, making any inquiries is mandated to be completed within one year from the end of the FY in which application is allowed to be proceeded with. While it will significantly bring down the protracted timelines, the usage of the term “where it is possible” may provide some leeway for the authorities in adhering to this rule
8. Conclusion of Unilateral APA

APA	Timeline
Other than IT/ITeS cases	Three years from the end of the FY in which the application was filed
IT/ITeS cases	Two years from the end of the FY in which the application was filed

9. It is interesting to note that the Board may direct closure of cases if the agreement is not entered into within the aforementioned timeline, on account of non-compliance by the applicant. While this change would result in structured completion of APA cases, there is lack of clarity on the repercussions caused on account of the delay in proceedings by the authorities.
10. In respect of Annual compliance report (“ACR”), vide notification No. 03/2022, the filing was made online. However in the draft rules it is mentioned that the PCIT to share one copy each to Competent authority, Commissioner of Income Tax and Jurisdictional TPO. Hence one may need to await the final rules to understand the process of filing the ACR i.e., whether online or manual.
11. Application for Renewal of agreement to be file vide a separate form i.e., Form No. 54.
12. Bilateral / Multilateral APA acceptance timeline – The applicant can convey the acceptance or otherwise to the competent authority within one month from the end of the month in which the communication has been received (as against 30 days from the date of communication)



Changes in APA Forms

The forms to be filed in connection with the APA process have undergone change. The form numbers and their corresponding changes as per the New Draft Rules is as below:

Purpose	Form No as per IT Rules 1962	Form No as per New Draft Rules 2026
Pre filing consultation	Form No. 3CEC	Form No. 50
Application for APA	Form No. 3CED	Form No. 51
Annual Compliance report	Form No. 3CEF	Form No. 52
Renewal of APA	No separate Form. To be filed vide Form No. 3CED	Form No. 54

The key changes are captured below.

Common pointers across all forms:

- The overall structure of the form has been modified wherein the information is sought in the form of tabular columns, divided into Part A & Part B, annexures, etc.,
- The form is required to be filed online, wherein certain particulars of the form are expected to be pre-filled
- Mandatory disclosure of Tax identification number of the applicant

Specific changes

A. Pre-filing consultation – Form No. 50

- The form is simplified wherein the following contents are removed from the existing Form 3CEC:
 - Identification of third party comparable;
 - Arm's length price / profit level indicator computation details
 - Details of critical assumptions
 - The history of the Competent Authority issues, requests and settlements

B. Application for APA – Form No. 51

- The form subsumes application for forward looking as well as for the rollback years;
- The details of business locations of the Applicant along with the employee headcount is required to be provided;
- The form requires the result of application of proposed TPMs to the covered transactions for the 5 prior years' operations and the time period applicant wants to cover in APA as against the 3

years in Form 3CED. Further the discussion and the quantification of the variance between existing and proposed TPM of those 5 years also to be provided;

C. Annual Compliance Report – Form No. 52

- The details of adjustment is required to be disclosed in a structured manner wherein the manner of computation of adjustment in case of respective PLI (i.e., OP/OC or OP/OI) is provided explicitly;
- In Form 3CEF, a general field seeking the applicant to demonstrate that the applicant had fulfilled all other terms & conditions of the APA without any specific mention of terms. However, in the new form, the following are explicitly sought to be presented:
 - Details on Invoicing and Credit terms including frequency of raising invoices by applicant/AE, adherence to the timeline as mentioned in the APA, payment / realisation of invoice as agreed in the APA, whether interest is offered in case of any delay;
 - Compliance with provisions relating to Secondary adjustment (Sec. 170) and interest deductions (sec. 177);
 - Confirmation on the preparation of segmental accounts, if applicable;
 - Certification from Chartered Accountant / Management accountant / Chartered Engineer/ etc., as applicable;
 - Confirmation on maintenance / furnishing of documentations, if any, as specified in the APA;

D. Renewal of APA – Form No. 54

- The main APA application form is replicated for renewal with the following inclusions:
 - Acknowledgement number of the original APA filed
 - Question on changes, if any, with regard to the information submitted in respect of the main APA application
- It is interesting to note that the details of Roll back (fee, roll back years, etc.,) are also retained in the form. However the same may not be applicable in case of renewal. Perhaps the same might be removed in the final rules.



Key Takeaways

- ✓ The draft APA rules under the Income-tax Rules, 2026 represent a structured refinement of the existing framework rather than a substantive policy shift. The changes focus on administrative realignment, procedural simplification, standardisation of fees, and introduction of clearer timelines, particularly for unilateral APAs. While certain formalities have been streamlined, the fundamental architecture and intent of the APA programme remain intact.
- ✓ Since rollback is subsumed in the main APA application itself, the procedure for withdrawal of rollback during the APA process is unclear at present. If the same is not entertained, one may need

to strategize the APA, whether to avail the rollback provisions or not, well in advance to avoid any probable hassle.

- ✓ While the defined timelines for APA conclusion is a welcome move, it calls for greater preparedness from the applicant's side in ensuring timely action towards filing response to the questionnaires, cooperation with the APA authorities during the site visits, etc.,
- ✓ The flat fee structure and removal of certain procedural requirements reduce administrative complexity but also place greater emphasis on strategic planning before filing or seeking amendments

About us



VSTN Consultancy is a Global Transfer Pricing firm with extensive expertise in the field of international taxation and transfer pricing. VSTN Consultancy has been awarded by International Tax Review (ITR) as Best Newcomer in Asia Pacific – 2024 and is ranked as one of the recommended transfer pricing firms. VSTN has also been nominated in 9 Categories under APAC, EMEA and Middle East Region ITR awards 2025. VSTN has its offices in India, UAE and Singapore.

Nithya Srinivasan, Founder of VSTN Consultancy, was named Middle East Transfer Pricing Practice Leader of the Year, recognizing her outstanding leadership and contribution to the profession. VSTN also received the Best Newcomer in the Middle East award from International Tax Review, showcasing its rapid growth and excellence in global transfer pricing advisory.

VSTN Consultancy has been honored with the Best Global Transfer Pricing Consultancy 2025 – India award at the prestigious Wealth & Finance Management Consulting Awards 2025.

Our offering spans the end-to-end Transfer Pricing value chain, including design of intercompany policy and drafting of Interco agreement, ensuring effective implementation of the Transfer Pricing policy, year-end documentation and certification, BEPS related compliances (including advisory, Masterfile, Country by Country report), safe harbour filing, audit defense before all forums and dispute prevention mechanisms such as Advance Pricing agreement. VSTNs senior partners have been ranked in ITR in the list of recognized Practitioners.



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