

Birla Soft India Ltd– ITAT - Delhi

Decision Outcome: In favor of the taxpayer

Category: Aggregation of business units

Summary of decision:

- The taxpayer is engaged in the business of software development and relate services
- During FY 2004-05, taxpayer provided customized software to its Associated Enterprise (AE)
- Taxpayer had related as well as unrelated comparable transactions
- Taxpayer benchmarked the controlled transactions by using Internal TNMM
- TPO observed that service was provided to AE from 3 STP units and benchmarked each STP unit separately and proposed an adjustment of Rs. 7.25 crore
- The Tax Court held that for the previous years under consideration, it had accepted the taxpayer's claim of benchmarking all STP units together
- Taxpayer rendered similar services from all the STP units and the services were rendered to the same AEs
- Further, it was observed that there was a single agreement between the taxpayer and the AE, which governed the terms and conditions of rendering such services
- Therefore, relying on the Tax Court's order for the earlier years, it held that combined transaction approach is appropriate for benchmarking the transactions
- Also, the Tax Court ruled that internal comparables are preferred over external comparables