

Sap Labs India Private Limited v. The Income Tax Officer, Ward-12(2), Bangalore & Connected Appeals

ITA No. 10 of 2011 c/w ITA Nos. 23/2011, 24/2011, 44/2015, 128/2015, 469/2015, 492/2016, 514/2016, 884/2017, 955/2017, 956/2017 & IT Appeal Cross Objection No. 1 of 2018

ITA No. 10 of 2011 c/w ITA Nos. 23 & 24 of 2011 and 9 Others (Kar HC, Reportable, decided 28.08.2026) | 2026-08-28

Landmark 121-page post-SC-remand Transfer Pricing ruling laying down 10 principles under Chapter X and Rule 10B: Rs. 200-crore upper turnover filter, 15% RPT filter, forex gain/loss operating nexus, shifting burden under section 92C(3), $\pm 5\%$ tolerance band, working capital adjustment, and comparable-by-comparable adjudication.

Income-tax Act, 1961: Chapter X — sections 92, 92A, 92B, 92C, 92C(2), 92C(3), 92CA, 92D and 260A | Income-tax Rules, 1962: Rules 10A, 10B, 10C, 10D and 10E

High Court of Karnataka | 2-judge bench (Division Bench) | S. G. Pandit, J. | K. V. Aravind, J.

Assessment years: 2003-04, 2004-05, 2005-06, 2006-07, 2007-08, 2008-09, 2009-10, 2010-11

Nine identical 585,988-byte docket copies in 1_Substantive_Precedents consolidated into this single lead record; scope confined to TP questions remitted by the Supreme Court

The 1_Substantive_Precedents folder contains multiple identical 585,988-byte PDFs under companion docket CNRs (including 20260828_KAHC010401972018.pdf, 20260828_KAHC010137162011.pdf, 20260828_KAHC010109032011.pdf, 20260828_KAHC010153392015.pdf, etc.), all of which are byte-for-byte identical copies of this 121-page common judgment. Note also paragraph 31.13 (PDF p. 120), where the Bench declined to adjudicate non-TP questions (such as section 10A/income-tax refund questions) as falling outside the scope of the Supreme Court's remand in (2024) 17 SCC 344.

01 FACTS OF THE CASE

Following the judgment of the Supreme Court in Sap Labs India Pvt. Ltd. v. Income Tax Officer, (2024) 17 SCC 344—which set aside the Karnataka High Court's earlier view in Softbrands India Pvt. Ltd. and remitted the batch of Transfer Pricing appeals to examine whether Arm's Length Price (ALP) determinations by the ITAT conformed to Chapter X of the Income-tax Act, 1961 and Rules 10A to 10E of the Income-tax Rules, 1962—the Division Bench heard twelve connected appeals and cross-objections (led by ITA No. 10 of 2011, Sap Labs India Pvt. Ltd.) raising systemic questions on turnover filters, related-party transaction (RPT) filters, foreign-exchange fluctuations, burden of proof under section 92C(3), the $\pm 5\%$ tolerance band under the proviso to section 92C(2), working capital adjustments, and inclusion/exclusion of software comparables.

Source: [Paragraphs 1-15; PDF pp. 1-42](#)

02 DISCUSSION BY THE HON'BLE COURT

In a comprehensive 121-page judgment, the Division Bench laid down ten governing transfer pricing principles under Chapter X and Rule 10B: (i) Chapter X is a self-contained code governing ALP determination, documentation and assessment of international transactions; (ii) initial burden of substantiating ALP and maintaining documentation rests on the taxpayer, while the TPO can interfere only upon satisfying the statutory conditions of section 92C(3); (iii) selection/exclusion of comparables is a data-driven FAR exercise under Rule 10B, and the TPO cannot substitute a standard departmental matrix without justification; (iv) the ITAT's adoption of an upper turnover filter of Rs. 200 crores is rational and legally sustainable because turnover, brand value, economies of scale and intangibles materially influence comparability; (v) a Related Party Transaction (RPT) filter of 15% is ordinarily preferable, though 20% or 25% may be adopted upon a specific finding that sufficient comparables are otherwise unavailable; (vi) foreign exchange gain or loss is an operating item only when it bears a direct nexus with the international transaction; (vii) once the TPO rejects the taxpayer's TP study and introduces new comparables, the burden shifts to the TPO to justify such inclusion/exclusion; (viii) there is no legal bar against including or excluding comparables at the appellate stage if reliable Rule 10B data is on record; (ix) the $\pm 5\%$ variation under the pre-amendment proviso to section 92C(2) is a permissible tolerance band and not a standard deduction once the variation exceeds the statutory limit; and (x) Working Capital Adjustment is a fact-dependent comparability adjustment rather than a selection filter. Applying these principles, the Court adjudicated the specific substantial questions across each connected appeal (including upholding the retention of Satyam Computers Ltd. in para 31.11 where its margin fell within the range of other comparables).

Source: [Paragraphs 16-31.13; PDF pp. 43-120](#)

03 JUDICIAL DECISION

Answering the systemic transfer pricing questions in terms of the ten-point statutory framework and adjudicating the individual substantial questions across the twelve connected appeals (while declining to examine non-TP questions outside the Supreme Court's remand), the High Court disposed of ITA No. 10 of 2011 and all connected appeals.

Source: [Paragraphs 31.1-32; PDF pp. 115-121](#)

04 OUTCOME / IN WHOSE FAVOUR

Mixed / Issue-by-issue disposal across the 12 connected appeals: Assessee-favourable rulings on the Rs. 200-crore upper turnover filter, 15% RPT filter, forex operating nexus, appellate comparable review, and TPO burden under section 92C(3); Revenue-favourable ruling that the $\pm 5\%$ proviso to section 92C(2) is not a standard deduction.

Source: [Paragraphs 25-32; PDF pp. 88-121](#)

05 AKHB REVIEW POINT

AKHB analysis: Sap Labs India (ITA No. 10/2011, decided 28.08.2026) is now the controlling post-Softbrands authority in Karnataka High Court transfer pricing litigation. Cite its 10-point holding directly for: (a) excluding giant software companies via the Rs. 200-crore upper turnover filter, (b) enforcing the 15% RPT threshold, (c) treating transaction-linked forex gains as operating margin, and (d) shifting the evidentiary onus to the TPO whenever the taxpayer's TP study is rejected under section 92C(3).

Source: [AKHB analysis based on paragraphs 16-32 / PDF pp. 43-121](#)

SOURCE & VERIFICATION

[High Court of Karnataka official reportable judgment PDF - AKHB Cloud Repository](#)

One hundred and twenty-one-page official High Court of Karnataka reportable common judgment PDF in ITA No. 10 of 2011 and 11 connected cases; paragraphs 1-32 span PDF pages 1-121.

Supplied source-reviewed note retained; original bytes and identity validation checked in this release. Substantive re-review is not claimed for this record.

[Open cited source rendition](#)

Full 121-page official High Court of Karnataka reportable PDF read and verified. Original bytes match SHA-256 48e160cd5049e16ebba7b8bafd273460024c9fbde67b20d8f9200136d931f711.

STATUTORY SCOPE

Applies Chapter X (sections 92 to 92CA) of the Income-tax Act, 1961 read with Rules 10A to 10E of the Income-tax Rules, 1962 across multiple assessment years. Income-tax Act, 2025 equivalence is not verified.

LATER TREATMENT

Source checked 2026-10-17. Full judgment checked. Rendered pursuant to the Supreme Court remand in Sap Labs India Pvt. Ltd. v. Income Tax Officer, Circle 6, Bangalore, (2024) 17 SCC 344, and subsequently followed across Karnataka High Court TP appeals (including ITA 379/2013, ITA 140/2014, ITA 155/2015, ITA 22/2021, and ITA 97/2026). Comprehensive subsequent judicial treatment has not been verified.

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

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