The GCC Paradox: How upskilling in India could blow up your tax strategy



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Indian Global Capability Centers (GCCs) are rapidly climbing the value chain, shifting from task executors to strategic leaders. While this operational evolution is a massive victory, it triggers a quiet, highly punitive tax risk that could decimate your projected cost savings.

India's GCCs have fueled global corporate development for over a decade. However, as these centers expand their capabilities, they create severe transfer pricing risks that run directly counter to the organization's bottom-line goals.

The evolution of GCCs: From coding factories to strategic hubs

India remains the undisputed heavyweight champion for GCCs, offering an unmatched talent pool at scale for multinationals looking to build digital muscle. Historically, these centers provided routine, lower-skilled labor—the execution engines of the enterprise.

Today, the narrative has fundamentally changed.

Headlines, consulting brochures, and LinkedIn feeds are saturated with praise for the "evolving" Indian GCC. They are no longer just coding factories; they are celebrated as "strategic innovation hubs." GCC personnel are now product owners, portfolio managers, and global directors. They conceptualize digital products, manage pipelines, and make autonomous decisions on budgets and timelines.

A recent market index highlights this shift, noting that India's GCCs are "shaping how global businesses compete" and that 17 percent of GCCs now have full ownership of strategic decisions and budgets.[1] This upskilling is widely cheered by everyone who makes a living building or operating an Indian GCC, outsourcing team, or other similar enterprise.

But while your operations leaders take a victory lap, they could be eroding your transfer pricing model, giving back significant amounts (in extreme cases, all) of the operating expenses savings they purport to capture with the GCC.

[1] 2026 HFS Generative GCC Index, "Ownership Is the Next Imperative for India's GCCs to Become Generative Enterprises," HFS Research and ANSR, May—June 2026.

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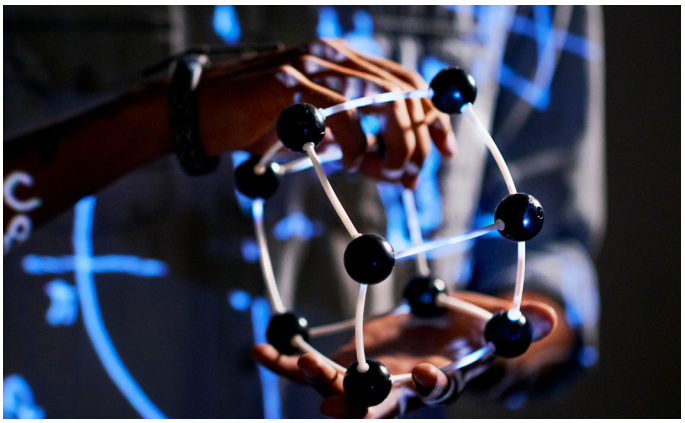
The trap: The math and the safe harbor illusion

To understand the danger, we must look at the mathematical reality of operating in a high-tax jurisdiction. India is a phenomenal place for talent, but a punitive environment for corporate tax:

- **The math:** The standard Indian corporate tax rate on profits sits at 30 percent. On top of that, a 15 percent withholding tax applies to distributed profits (for a typical US counterparty). This leaves US multinationals looking at an effective tax drag of over 40 percent on profits captured in India—compared to a 21 percent US federal rate or favorable 12.5 percent to 15 percent rates in strategic jurisdictions like Ireland or Switzerland.
- **The routine illusion:** When your Indian GCC performed routine, lower-skilled tasks, this high rate was manageable. You could set the transfer price paid to the Indian GCC at a low, predictable cost-plus markup. Nominally making it even easier, India has generated a lot of excitement with its newly introduced 15 percent cost-plus safe harbor for certain routine IT/ITES functions, providing financial certainty and reducing aggressive audits.
- **The catch:** This safe harbor strictly applies only to *routine functions.* All the buzzwords your leadership uses to describe the GCC's evolution—*"strategic direction," "conceptualization," "product ownership"*—are exactly what disqualify you.

The moment your GCC personnel stop working under the strict, documented direction of a foreign principal and begin leading themselves, the safe harbor vanishes. Indian tax authorities will inevitably push for a cost-plus markup in the high teens or low twenties, significantly inflating your tax base in what is effectively a 40 percent tax jurisdiction.

And a higher cost-plus markup might actually be your best-case scenario. The alternative for an Indian GCC that is becoming more strategic, more independent, and more impactful on the global value chain could be far worse.



DEMPE and the threat of profit splits

Many of these highly touted functions emerging within Indian GCCs cross a critical line in international tax law: they qualify as development, enhancement, maintenance, protection, and exploitation of intangible property (DEMPE) functions.

When GCC leaders control software research and development roadmaps, manage digital pipelines, dictate strategy, or control budgets, they may no longer be merely providing a service—they could be actively driving the value of the company's intellectual property (IP).

Under Organisation for Economic Co-operation and Development (OECD) transfer pricing rules, an entity performing DEMPE functions is entitled to "appropriate remuneration", a highly subjective term which will be interpreted by a historically aggressive Indian tax authority. Rather than a routine cost-plus markup, a unique or consequential contribution by the GCC gives the Indian tax authority the ammunition to argue for a share of the nonroutine profits generated by the IP.

If India successfully claims a share of your global IP profits, then you are no longer just paying tax on a markup of your local engineers' salaries. You could be paying a 40 percent tax on a slice of your global enterprise profits—an amount completely untethered from local operating costs. Unresolved, this upskilling can erode the very cost savings that justified the GCC in the first place. And this cost is in addition to the already significant "regular" tax penalty that already reduces your initial cost savings of moving from US or other high-tax resources to an Indian (or other low-cost) GCC location.[2]

[2] For example, in the case of moving from a US model to an Indian GCC model, we typically observe that the migration to the Indian GCC results in an increase in global tax costs (and reduction in EPS) of between 25 percent and 35 percent of the labor cost savings of moving to the GCC.

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The playbook

Upskilling your global workforce is a business imperative, but it must be managed with absolute precision. To protect your operating model, execute these four defensive strategies:

1 Assess and ring-fence

Conduct a granular, honest assessment of what your teams in India are actually doing. Identify personnel engaging in nonroutine or DEMPE activities. Where possible, isolate and ring-fence these strategic decision-makers to preserve a clean "routine service provider" profile—and the 15 percent safe harbor—for the rest of your headcount.

2 Establish robust governance

You cannot simply tell tax authorities that your GCC is routine; you must prove it. Implement robust internal controls, clear delegations of authority, and strict RACI matrices. Go deeper into the technology layer with IT artifacts like products roadmaps, pipeline management dashboards, and software release approval logs. These are not stand-alone documents scattered throughout the organization. These governance documents are the single source of truth that proves (for tax authorities or a court) where control and decision-making actually sit.

3 Negotiate an APA

If your strategic roadmap requires heavy DEMPE functions to remain in India, lean into that reality. Rather than hiding from the risk, take affirmative steps to manage it. Negotiate a bilateral Advance Pricing Agreement (APA) between the US and India. While this may lock in a higher local tax burden, it guarantees your pricing methodology, eliminating retrospective audits and years of painful tax controversy.

4 Deploy a strategic Digital COE

Sometimes the best defense is a good offense. The ultimate counterplay to an Indian IP profit claim is proving someone else should earn all the profit. A properly structured Digital COE in a favorable tax jurisdiction, such as Ireland, does just that. The Digital COE acts as the legal and operational "brain" of your digital value chain. By deliberately staffing the most critical DEMPE roles—the ultimate product owners, budget controllers, and risk managers—within the Digital COE, you naturally defend against an Indian profit grab.



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The bottom line

The evolution of the Indian GCC from a cost center to an innovation engine is a testament to the country's incredible talent. But letting operational evolution outpace your tax strategy is executive negligence.

Do not let an operational victory become your tax department's worst nightmare. Ensure your operating model, digital value chain, and tax frameworks are aligned—before the tax authorities align them for you.



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