Transforming India into a trusted global data hub

Future-ready tax considerations for data centres

December 2025

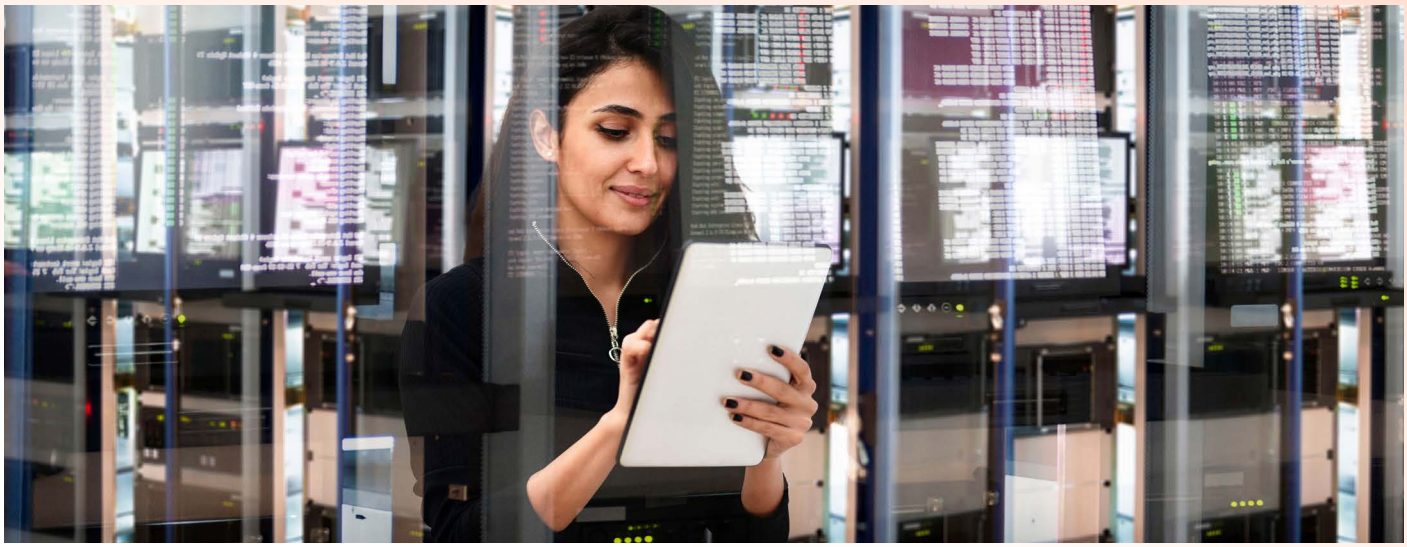
Foreword

India's data centre industry has evolved from back-end support to a core pillar of the digital economy, powering cloud services, e-governance, FinTech, commerce, media, and advanced AI workloads. Demand is rising on the back of India's scale and digital public infrastructure. We published a detailed report on the contribution of data centres across industries and sectors, as well as the crucial support they are providing to the Government's digital initiatives and the start-up ecosystem.[1] From a policy standpoint, the direction appears to be clear. The Digital Personal Data Protection (DPDP) Act, 2023, and recently notified DPDP Rules, 2025, have reinforced trust. The Ministry of Electronics and Information Technology's (MeitY's) draft Data Centre Policy and TRAI's recommendations point to streamlined approvals, targeted incentives, and formal recognition of the sector as critical infrastructure. Together, these steps have strengthened bankability and investor confidence.

However, the rapid growth in the sector and new business models and use cases that are emerging are also creating new tax challenges and risks. The Government has been proactively engaging with industry stakeholders to understand these challenges. It is actively discussing ways in which tax certainty could be provided to players in the sector in order to encourage growth. Some of these areas under discussion include rules on cross-border characterisation and nexus, Goods and Services Tax (GST) treatment of construction and long-tenure leasehold rights, easing of special economic zone (SEZ) compliances, and alignment of certification frameworks with global standards.

In addition, to advance climate goals for the sector, the Government could also consider time-bound, targeted incentives for energy-efficient, low power usage effectiveness (PUE) designs, and credible decarbonisation costs.

This paper seeks to propose future-ready tax and regulatory considerations for data centres with a focus on consolidating near-term certainty on tax matters and enabling futuristic ideas such as 'data embassies' and integrated 'data cities' over time. This agenda can potentially convert India's digital scale into durable economic advantage and position the country as a trusted global hub for investment, compute, connectivity, and sustainable innovation.



1 https://www.pwc.in/assets/pdfs/the-strategic-role-of-data-centres-in-empowering-indias-digital-revolution.pdf

India as a trusted global data hub

India's data centre sector is now at the forefront of the digital economy, supporting digital areas for enterprises, hyperscalers, and digital-native businesses while enabling e-governance, FinTech, commerce, and media.

The data centre sector revolves around three connected parts: hyperscalers, which are huge data centres built for AI and cloud computing; co-location centres that provide a secure, flexible space for companies to use; and smaller edge data centres that bring fast, low-delay services closer to people in mid-sized cities.

The unprecedented growth witnessed in this sector is reinforced by various factors which are empowering India to become a digital infrastructure destination. AI, advanced analytics, and cloud-native architectures are pushing demand towards GPU-rich, high-density environments. 5G and latency-sensitive applications are driving distributed designs and localised capacity at the edge. These trends favour forward-compatible facilities capable of higher rack densities, liquid cooling, and modular expansion.

Recognition of data centres as infrastructure assets, together with the Digital Personal Data Protection (DPDP) framework and a comprehensive National Data Centre Policy, signals long-term commitment. State-level regimes are further enabling this positive environment by offering incentives and streamlined approvals that reduce execution friction and bolster investor confidence.

On the tax side as well, areas that the Government is already considering and those on which it could consider providing tax certainty and suitable impetus in light of changing business models and use cases include possible implications for overseas players for permanent establishment (PE) applicability, depreciation for highly integrated facilities, deductibility of sustainability-linked spend (e.g. carbon credits and Renewable Energy Certificates [RECs]), income characterisation for withholding tax, and safe harbour rules, specifically for data centres. On the indirect tax front, the clarification on hosting and infrastructure support services being considered as exports has paved the way for refunds of Goods and Services Tax (GST) credits. However, input tax credit on significant capital expenditures such as construction of data centres complying with global standards could also be considered. Additionally, export incentive schemes such as special economic zone (SEZ) procedures and evolving certification frameworks should be calibrated to safeguard high-availability operations without imposing duplicative compliance.

The Government's open and collaborative approach towards the industry and stakeholders will help in creating a future-ready policy framework that further cements India's position as a trusted global hub. Providing tax certainty to a few of these emerging areas can be a stepping stone for the industry. At the same time, India can accelerate climate-aligned growth by encouraging green infrastructure through tools such as faster depreciation, investment-linked allowances, and carefully targeted GST relief. Further, oversight should be transparent and predictable, and SEZ rules should be relaxed in a calibrated way for mission-critical facilities.

Looking ahead, India can move to further strategic bets. Developing export-oriented campuses, enabling 'data embassies', and planning integrated 'data cities' would bring compute, connectivity, and innovation together under one policy umbrella.

This approach would lay a robust foundation for the digital economy by catalysing cloud computing capacity, accelerating the scale and reliability of FinTech infrastructure, and enabling broad-based adoption of AI across sectors from manufacturing and healthcare to public services. By anchoring sensitive datasets within sovereign, high-assurance environments, these initiatives would advance data localisatiuon objectives while unlocking tangible technological benefits: materially lower latency for mission critical workloads, faster and more resilient 5G networks at the edge, and the rapid training and deployment of AI models closer to the point of data generation.

Current market landscape for data centres

Data centres are emerging as a key infrastructure segment to support the global digital economy. India's digital economy is a significant contributor to the nation's GDP with a 11.74% share ($0.402 tn) in FY 2022–23.[2] It is expected to expand at nearly double the pace of the overall economy, potentially accounting for around 20% of the nation's income by FY 2029–30 and thus exceeding the contribution of agriculture and manufacturing. As more businesses and services continue to rely on digital technologies, the demand for data centres has increased by around nine times. India's current data centre installed capacity is 1.5 GW with an estimated CAGR of about 20–24% between 2025–2035. The total capacity is expected to reach to around 14 GW by 2035,backed by investment commitments from various Indian and global data centre operators.[3] India's growth in data centre capacity is driven by an exponential increase in data consumption, coupled with an improved regulatory framework and lower cost of business. More than 90% of the current installed capacity of 1.5 GW is spread across major established cities like Mumbai, Chennai, Delhi NCR, Bangalore, Pune, Hyderabad, and Kolkata[4] owing to multiple factors such as proximity to major enterprise markets, investment by hyperscalers to develop a broader ecosystem for data centre operations, and better security around quality and quantity of power.

At present, data centres in India offer co-location facilities, hyperscale facilities, and AI and edge readiness. Tier-II cities are evolving into hubs for edge data centre facilities to cater to localised demand. They present a compelling case for AI-ready training data centres since these facilities need not be located close to the end customer. The Indian market will witness a host of new investment announcements of up to $70 bn by FY 2035 from large data centre operators, real estate developers, and investors.

India's favourable macro factors include lower cost of building data centres compared to potential data centre hubs such as Singapore, Taiwan, Malaysia, and South Korea. Further, India has high potential for clean power generation which is a critical requirement for data centre development.

Current tax landscape for data centres

The Government of India has launched several initiatives to support and shape the growth of the data centre industry. The draft Data Centre Policy released in 2020 set out a framework for how data centres should be authorised, built, and run, while also proposing relevant regulatory safeguards. Though the draft policy is proposed to be revisited and there are already consultations ongoing for the same, it showcases the Government's outlook to boost the industry and provide necessary support from a policy standpoint.

In parallel, the Telecom Regulatory Authority of India (TRAI) put forward recommendations aimed at promoting the sector, including incentives for investment, a streamlined registration framework, and the creation of a national single-window system to simplify approvals.

On the tax side as well, the Government has been engaging with stakeholders to understand areas where clarifications and changes could help enhance certainty and create a progressive regime for growth of the sector. Some of the areas which are either already under consideration or could be considered are discussed here.

2 PIB Notification, Jun 2025 - cas.idc.com/login?site=idc&service=https%3A%2F%2Fmy.idc.com%2Fj_spring_cas_security_check

3 Information gathered from various investment announcements by major data centre operators and investors in India

4 Information gathered from current installed capacities of major data centre operators' official websites

1. Key direct tax considerations

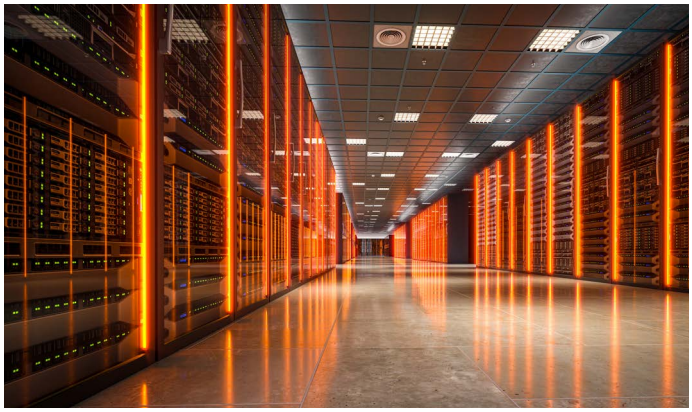
Depreciation rates applicable to data centre assets

A data centre is developed through a combination of highly specialised buildings where computer hardware, cooling systems, fire safety equipment, and ancillary technology are deeply integrated into the structure. As against basic commercial or industrial buildings, these facilities are built to optimise the performance and security of digital infrastructure. This kind of integration creates significant ambiguity regarding the appropriate rate of depreciation for tax purposes. Currently, assets may be depreciated at 10% (buildings), 15% (plant and machinery), or 40% (computers), leading to uncertainty and potential disputes.

Given the rapid evolution of technology in this industry and the consequent risk of technological obsolescence, there may be a need for a more favourable depreciation regime.

Tax deductibility of carbon credits and RECs

Data centres operators purchase carbon credits and RECs to offset their environmental impact. As one of the most energy-intensive sectors, achieving net-zero carbon goals is a critical business imperative for data centres. However, the tax laws do not explicitly provide for the deductibility of such expenses. Though this issue remains open for various industries, a clarification in this regard may help address any future uncertainty.



Characterisation of income and withholding tax (WHT) for data centre services

The manifold nature of cloud services encompassing storage, computing, hardware and software maintenance, and data analytics leads to ambiguity regarding the characterisation of such transactions into royalty or fees for technical services. This distinction is critical, as it directly impacts the applicable withholding tax obligations and the overall taxability of income in India.

PE risk

In a few instances, concerns have been raised that foreign entities may have a PE in India and therefore there should be profit attribution. This may expose the non-resident entity to uncertainty around profits taxable in India. The industry has been discussing these issues with the Government. A clarification in this regard would provide tax certainty and help resolve ongoing ambiguity.

Significant economic presence (SEP)

The SEP framework in India aims to bring digital businesses within tax coverage, even in the absence of physical presence in India. Under this framework, a non-resident enterprise may be deemed to have a taxable presence in India if it exceeds the prescribed revenue or user thresholds (currently ₹2 crore in revenue or 300,000 users). However, these thresholds may be low in the context of the substantial scale of data centre and cloud operations.

In addition to the above, data centre operators face a practical challenge in tracking and proving the volume of interactions with Indian users, data usage, or revenue generated from India.

These areas, particularly the risk of creating a PE and exposure to SEP, are especially salient for overseas players establishing data centres in India, and should be evaluated against India's broader digital ambition to position itself as a trusted global hub for data infrastructure, cloud services, and cross-border digital trade.

2. Key transfer pricing considerations

Applying safe harbour rules (SHR) for IT-enabled services (ITeS) to data centre operations in export scenarios

India's transfer pricing safe harbour rules cover ITeS, including 'data processing'. Although envisaged for human-rendered services, export-oriented data centre operations may qualify where Indian activities are routine and process-driven (ingestion, storage, back-up, monitoring), risks are limited, and appropriate compensation model is cost-plus. Eligibility may also be questionable if operations are predominantly asset-driven in India or if material assets, IP, or delivery risks are controlled locally.

While uncertainty around such issues can be addressed by an advance pricing agreement (APA) or robust benchmarking, clear guidance in this regard could provide upfront certainty to the industry. Further, it may be evaluated if a specific safe harbour can be provided for this industry. In case it is considered as part of ITeS, it is important to clarify the conditions under which data centre functions such as ingestion, storage, back-up, and monitoring would fall within the ambit of 'data processing'.

Operating model, entity characterisation, and inter-company pricing

For transfer pricing purposes, outcomes hinge on the operating model, functional, asset, and risk profile of the entity, the corresponding characterisation, and pricing. Hence, direct-sale, licensing, and reseller models may require distinct transfer pricing policies: limited-risk Indian service providers may be remunerated on cost-plus; entrepreneurial licensees/distributors earning market-based returns or arm's-length buy-sell spreads, depending on the facts of the case.

An asset-heavy special purpose vehicle (SPV) needs funding to be aligned to third-party norms. Such funding, debt, or guarantee should comply with the arm's length standard. The transfer pricing operating models for SPVs follow the functional, asset, and risk profile which can be cost-plus for routine providers; return on capital employed (ROCE) or residual methods where entities own/manage mission-critical assets, bear uptime/SLA, capacity, or obsolescence risks – depending on the facts of each case.

It is important to evaluate the applicability of an appropriate transfer pricing model which may require careful delineation of the central principal entity's functions, assets and risk analysis (FAR) versus the India SPV (i.e. the entity that takes decision-making over capital), capability to assume capital risk, risks arising out of the SLAs, etc. The successful implementation of the model also requires careful alignment of inter-company agreements with the FAR and the evaluation of income tax and GST consequences (withholding/royalty/fees for technical services [FTS] characterisation, place of supply/export, credits).

In addition to the above, certain costs are typically recovered from the end customers on an actual basis, as an industry practice by certain types of data centres such as co-location data centres in third party scenarios. Depending on the facts of the case, wherever a limited return is considered appropriate for the Indian entity, interpretive guidance on the treatment of such significant third-party costs commonly incurred in data centre operations such as power, connectivity, and maintenance may be helpful to clarify when these costs may be treated as pass-through versus when a return is appropriate on such costs.

3. Key indirect tax considerations

From an indirect tax perspective, as the sector is evolving, certain interpretational challenges are emerging given the complexity of business models. For instance, in certain cases, data hosting and infrastructure support services provided by data centres were being considered as services provided through immovable property located in India or characterised as intermediary services, which did not seem to be the intent of the legislature. In a very timely move, a circular was issued by the Central Board of Indirect Taxes and Customs (CBIC)[5] which clarified that the place of supply for such services is the recipient's location, thereby treating them as exports of services and enabling refunds of unutilised input tax credit; pending claims are now being processed. While this clarification resolves a major issue, the following indirect tax questions may provide further certainty.

GST credits on construction-related activities of data centres

The eligibility of input tax credit (ITC) on construction-related activities for data centre remains a critical issue under the GST regime. While GST law restricts ITC on construction of immovable property, an exception exists for 'plant and machinery'.

The Supreme Court has also, in the case of 'Safari Retreats',[6] allowed ITC on construction where the output was taxable, renting of immovable property, or where the immovable property being constructed qualifies as a 'plant'. However, there have been retrospective amendments to the GST law post this judgement, whereby the term 'plant or machinery' has been replaced by 'plant and machinery.'

What needs to be analysed is whether hyperscale data centres, by virtue of their specialised design, integrated infrastructure, and unique operational requirements, arguably qualify as 'plant and machinery' rather than mere civil structures. Judicial precedents and technical analyses support this classification, emphasising that such facilities are purpose-built, inseparable from the equipment they house, and cannot be repurposed for other uses.

In the specific case of co-location data centre service providers, an additional argument can be advanced that construction is not 'on own account' where the output is the taxable leasing/renting of space, racks, and related infrastructure. Read together with the plant-and-machinery carve-out, this supports the position that ITC should be available for such outward leasing supplies.

Industry stakeholders have sought formal clarification to ensure ITC eligibility, as denial of credits on these capital-intensive projects significantly increases costs and clear guidance by the GST Council is essential to align tax policy with India's digital infrastructure ambitions.

Taxability and ITC of leasehold rights

Entities developing data centres typically secure 99-year leasehold rights over industrial land, often from state industrial corporations by paying an upfront lease premium or salami. These arrangements economically mirror land sales, as the upfront payment reflects market value and recurring rents are nominal.

Under GST, upfront assignment of such leasehold rights by state industrial corporations is exempt. However, subsequent assignments between private parties lack a corresponding exemption and are frequently treated by authorities as taxable leasing services at 18%.

5 Circular No. 232/26/2024-GST dated 10 September 2024

6 2024 (10) TMI 286 - Supreme Court

Recent High Court[7] decisions have held that assignment of leasehold rights is not liable to GST, relying on the constitutional allocation of taxing power over land to the states and the scope of Articles 246A and 269A, which authorise GST only on supplies of goods and services. As the sector evolves, certain areas such as private-to-private assignments of leasehold rights are emerging as new frontiers where further statutory clarity would be beneficial. The Government's ongoing engagement with the industry on these issues would be helpful towards resolution.

A parallel controversy concerns ITC on GST paid for leasehold rights, including upfront premiums, periodic rents, and consideration on subsequent assignments. For taxable transactions, there is possible difficulty on eligibility of ITC by invoking Section 17(5), arguing the payments pertain to land or are capitalised to immovable property, and by excluding land/building from 'plant and machinery'. An alternate view is that leasehold rights are not used 'for' construction of immovable property and, therefore, ITC should not be restricted under Section 17(5)(d), especially where outward supplies are taxable. These divergent rulings highlight the complexity of the issues at hand and underscore the value of the Government's continued efforts to provide clear, harmonised guidance.

Export-oriented data centres and SEZ framework

Few players in India's data centre sector are engaged in delivering infrastructure and services to clients across the globe. To encourage this growth, there is strong merit in enabling data centres to operate as SEZ developers or units, so they can benefit from the fiscal and regulatory incentives designed to boost exports and attract investment.

That said, operators face certain hurdles when trying to use the SEZ framework. While the framework has been instrumental in supporting export-oriented industries, the unique operational requirements of data centres present an opportunity to further tailor compliance processes. The Government's willingness to consider such sector-specific adaptations is highly appreciated by industry stakeholders.

Hence, there is an opportunity to further enhance the SEZ compliance model for data centres, building on the Government's commitment to ease of doing business. A tailored approach would help in reducing physical inspections, shifting to digital compliance and monitoring tools, and streamlining approvals. These changes would protect the operational integrity of data centres while preserving regulatory oversight and supporting India's broader export ambition.

7 2025 (1) TMI 516 – Gujarat High Court and Special Leave Petition (Civil) Diary No. 33085/2025

4. Key regulatory considerations

Benefits extended as per the draft National Data Centre Policy, 2020

The Central Government has played a key role in promoting data centres through the draft National Data Centre Policy, 2020, which classifies data centres as infrastructure. The Government is in the process of revisiting this policy and consultations in this regard are already underway. This designation improves access to long-term financing and makes the sector more attractive to both domestic and international investors. The draft policy also proposes a single-window clearance mechanism to streamline approvals, reduce red tape, and accelerate project timelines. In parallel, several state governments have launched their own policies offering targeted incentives and building specialised ecosystems, which together are strengthening India's data centre landscape.

The Government of India has enacted the DPDP Act, 2023, to establish a comprehensive framework for processing digital personal data, safeguarding individual rights, and ensuring organisational accountability. On 13 November 2025, MeitY notified the final DPDP Rules, 2025,[8] together with phased implementation timelines, reaffirming the Government's commitment to building trust and policy readiness and signalling potential implications for data centre operations.

Further, at the state level, governments are actively creating favourable conditions for investment by leveraging regional strengths. These efforts, aligned with national policy, support the development of data centre clusters and parks that enable plug-and-play models and operational efficiencies.

India-specific data centre certification guidelines

Earlier this year, the Government initiated plans for India-specific data centre certification guidelines, developed by MeitY's Standardisation Testing and Quality Certification (STQC) Directorate in collaboration with TRAI and the Telecommunication Engineering Centre. These proposed standards aim to harmonise key operational and maintenance areas, including land use, construction norms, security protocols, energy consumption, and third-party audits, thereby raising the overall quality and security baseline for domestic facilities.

While this reflects a strong regulatory commitment to performance and resiliency, industry participants have raised concerns about potential duplication with existing compliance frameworks, misalignment with globally recognised certifications, and added operational burdens. The ongoing dialogue between the government and industry is focused on aligning standards without compromising India's competitiveness.

Other regulatory areas

Despite strong progress, the complexity of India's multi-layered regulatory environment still poses challenges. Differing state-level rules can lead to inconsistencies in areas such as land acquisition, power tariffs, and renewable energy policies, complicating planning and execution. Continued efforts to harmonise and standardise these processes are essential to alleviate friction. Equally important is formal recognition of data centres as essential services, which would enhance operational resilience and help ensure continuity during emergencies or crises.

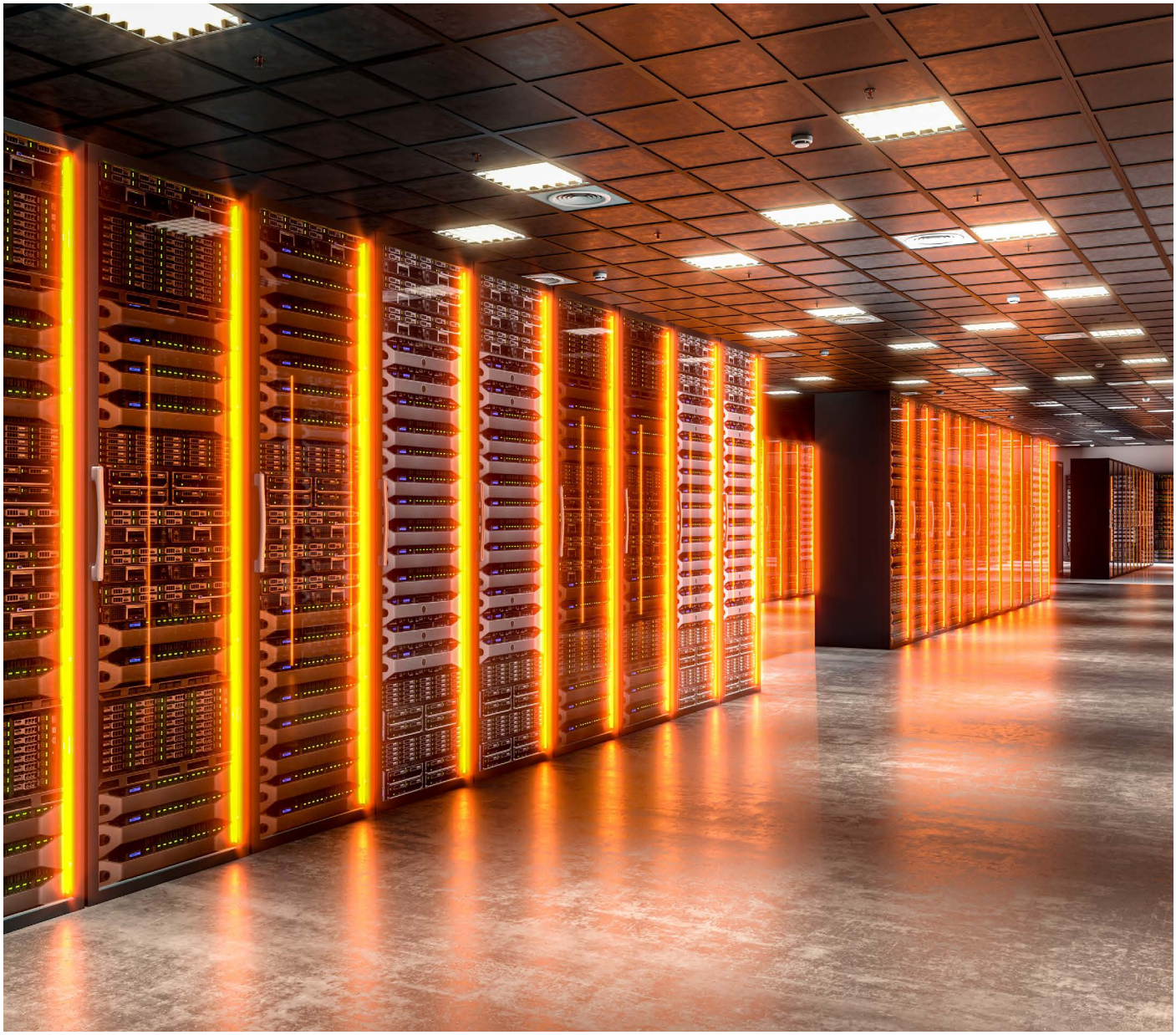
8 Notification No. G.S.R. 846(E) dated 13 November 2025

Aligning taxation with the future of data centres

As India's digital economy accelerates and the country sets its sights on becoming a global hub for data, our tax framework for data centres would need a continuous evolution to keep pace. All efforts are being made by all stakeholders to keep the framework supportive, forward-looking, and aligned with international best practices.

The Government has been taking various steps towards ease of doing business and encouraging uniformity in various policies, and such momentum should continue.

The following recommendations are designed to modernise the tax regime in a way that strengthens national digital infrastructure while encouraging growth and investment in the sector.



A. Short-to-medium term goals: Enhancing tax certainty and addressing unresolved areas

In the near to medium term, the Government could engage more regularly with the industry through structured forums and outreach. These platforms can help in identifying practical challenges early, build trust, and support the co-creation of clear, workable solutions, thus providing further impetus to the sector.

Finalising the data centre policy

There has been lot of industry outreach regarding the data centre policy and various collaborative discussions have taken place. The industry now looks forward to a comprehensive national data centre policy to deliver tax certainty, harmonise Centre–state incentives, and recognise data centres as infrastructure.

Tax certainty and clarification of ongoing issues

The Government could issue guidance on the tax treatment of data centre operations, particularly regarding the classification of services, and the risk of PE for foreign entities.

Further, guidance on areas such as depreciation rate, carbon credit related expense deductibility, and applicability of SEP provisions and safe harbour provisions could also increase confidence.

Construction-related GST credits

The eligibility of ITC on construction activities remains a critical aspect for data centres. Although the law restricts ITC on construction of immovable property, there's a strong argument that hyperscale data centres should be treated as 'plant and machinery', which would allow ITC. Further, providing a clarification that credit for co-location providers is available where the construction is 'not on own account' would provide much-needed relief to the sector.

Clear guidance that aligns with court rulings would help ensure these high-capex projects aren't hit with stranded credits.

A comprehensive overhaul of Section 17(5) is also necessary considering the growth anticipated in this sector. The provision should be overhauled to clearly spell out when credits are available on construction-related spend and reduce recurring disputes. Bringing the rules in line with international practice would modernise India's ITC framework for construction and significantly improve the cost competitiveness of Indian data centres versus global peers.

Relaxations in SEZ laws

Data centres located in SEZs may face practical operational issues, including frequent inspections and procedural requirements, that can disrupt sensitive, high-security environments. To make SEZ incentives truly workable for data centre operators, there should be targeted regulatory relaxations such as reducing physical inspections, enabling digital-first compliance processes, and simplifying approval workflows. These changes would not only improve day-to-day operations but also support the broader goal of establishing dedicated data centre economic zones.

B. Medium-term goals: Incentivising green and localised digital infrastructure

As the sector matures, tax policy should evolve simultaneously to actively promote sustainable and sovereign digital infrastructure.

Tax incentives for green data centres

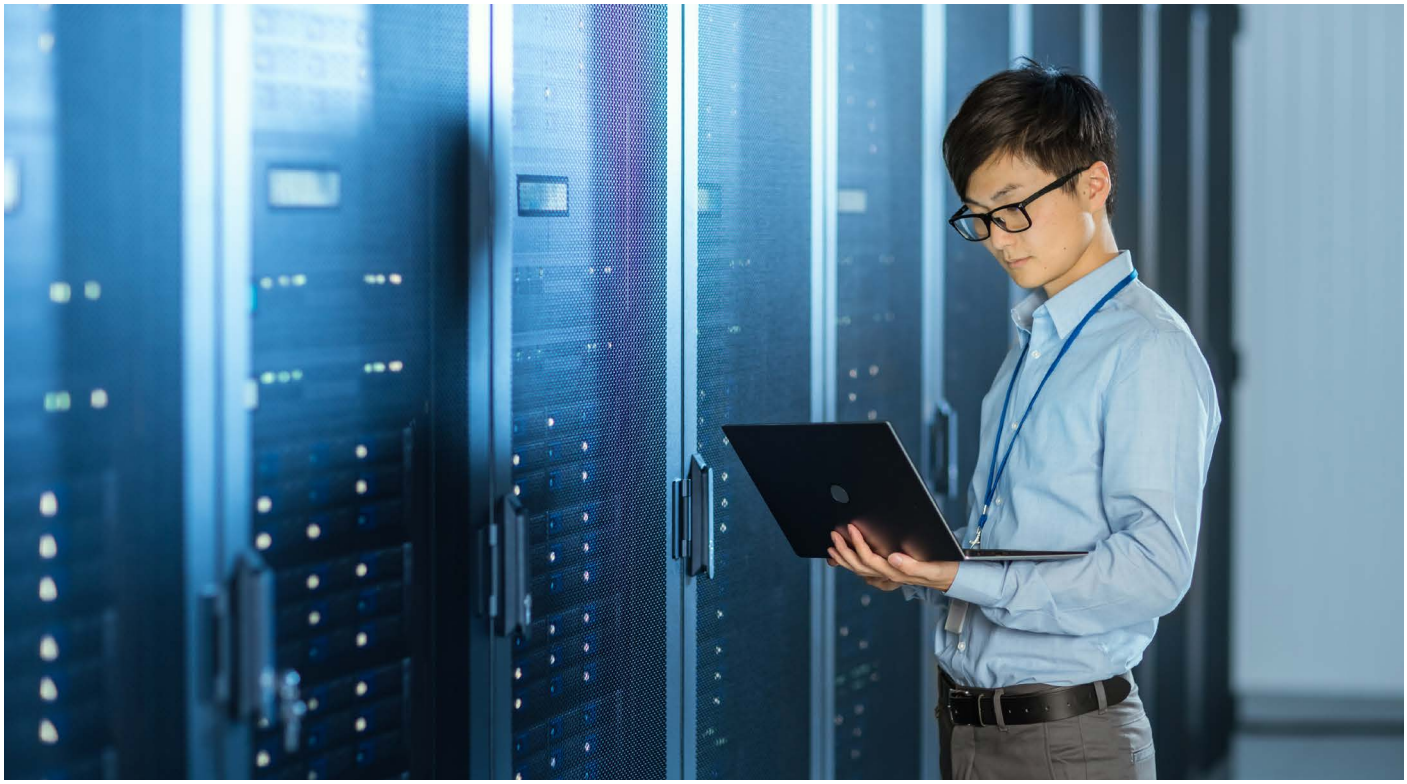
As India's data centres use a lot of energy, they should be encouraged to shift to cleaner technologies with smart, targeted tax breaks. This could mean allowing accelerated depreciation or investment-linked deductions for green-certified infrastructure and offering carbon credits or tax rebates to facilities that meet credible ESG standards. With these measures, the sector can keep growing while staying aligned with India's climate goals and global sustainability expectations.

Data localisation linked tax benefits

With increasing emphasis on data sovereignty and compliance with data localisation mandates, tax incentives can play a pivotal role in encouraging the establishment of local data storage and processing infrastructure. Potential measures include tax holidays or reduced corporate tax rates for data centres supporting localisation, enhanced input tax credits for locally procured hardware, and pass-through tax treatment for investments in domestic hosting partners.

States such as Andhra Pradesh, Uttar Pradesh, and Karnataka offer attractive incentives to data centres, including capital and land subsidies, reimbursement of operational expenses, and payroll-related benefits.

These incentives will lower compliance costs and support India's strategic autonomy in the digital domain.



C. Long-term goals: Pioneering strategic digital infrastructure through data embassies and data cities

Looking ahead, India has the opportunity to position itself as a global leader in digital infrastructure innovation by embracing emerging models.

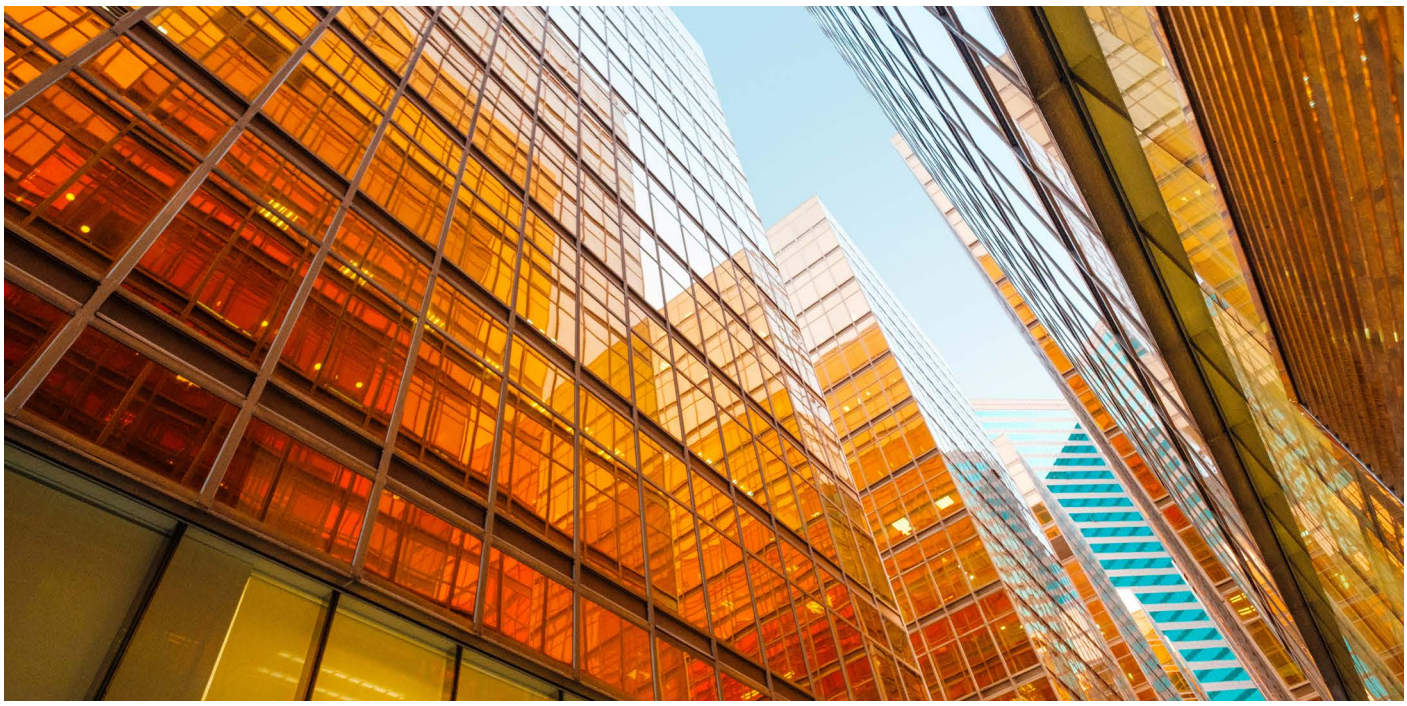
Data embassies

IIndia can attract foreign governments and international organisations by looking at opportunities such as offering 'data embassy' arrangements sovereign data hosting under diplomatic protections. This would entail creating tax-neutral zones, sovereign immunity frameworks, and robust cybersecurity guarantees, making India a trusted host for the critical digital assets of other nations.

Data cities

Building dedicated 'data cities' designed from the ground up for digital infrastructure could set the stage for future-ready investments. By bringing together data centres, cloud providers, AI labs, and digital services under a single policy and tax regime, these cities would offer targeted incentives, regulatory sandboxes, and turnkey infrastructure that make it easy for businesses to set up and scale. The result would be a powerful ecosystem that attracts global capital, accelerates innovation, creates high-quality jobs, and positions India as a leader in the global digital value chain.

By adopting a phased, forward-looking approach to taxation that addresses immediate uncertainties, incentivises sustainable and localised growth, and pioneers new models for strategic digital infrastructure, India can create a vibrant, competitive, and future-ready data centre ecosystem. This will be instrumental in realising the nation's ambition of becoming a trusted global digital powerhouse.



Key takeaways

India's data centre industry is expanding rapidly, fuelled by AI, cloud adoption, low-latency applications, as well as increasingly supportive national and state policies. To keep up this momentum, India needs a predictable, investment-friendly tax and regulatory environment.

Tax clarity provided comprehensively across the lifecycle would further instil confidence in the industry. This includes clear guidance on depreciation for integrated facilities, profit attribution and PE exposure (including significant economic presence), income characterisation and withholding, and transfer pricing. GST rules should be rationalised to allow seamless credits for hyperscale infrastructure, and the tax treatment of leasehold rights should be clarified. Introducing an optional presumptive attribution mechanism would provide clarity on transfer pricing mark-up, reduce disputes, and free up capital.

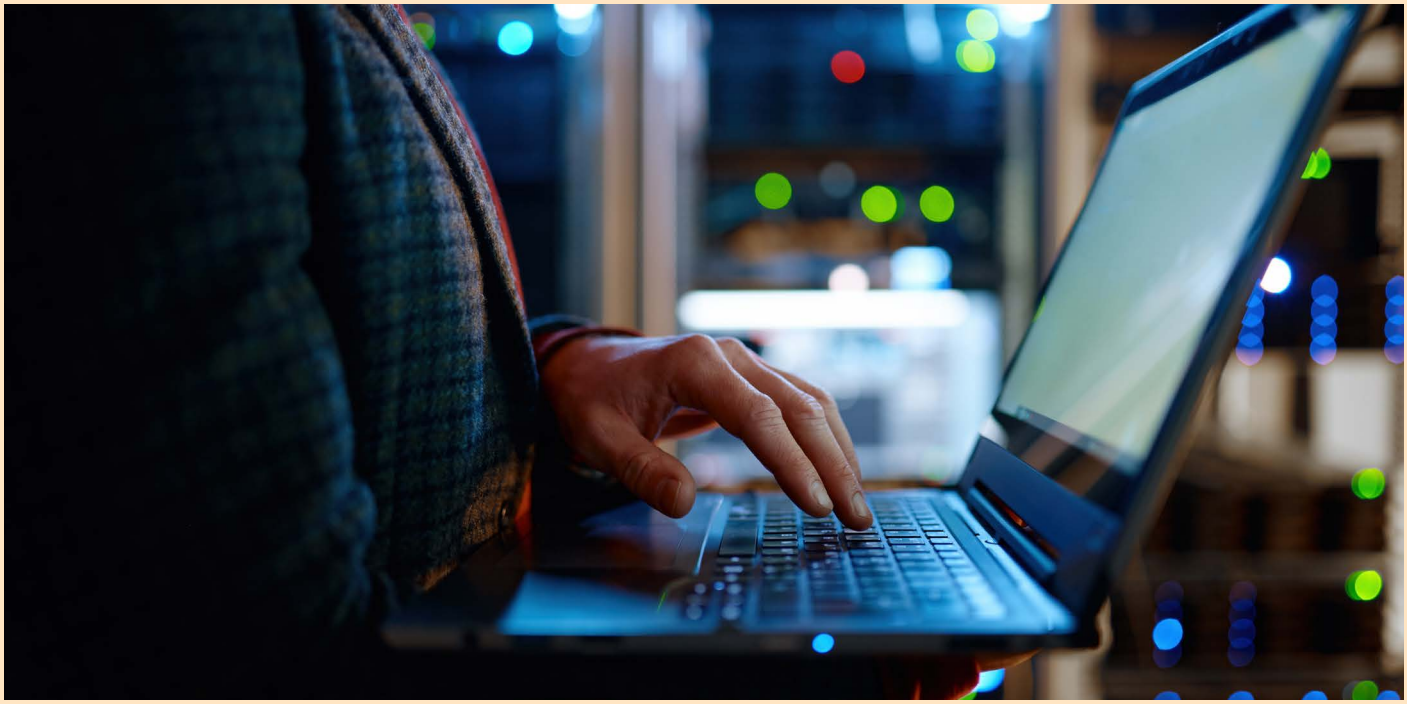
SEZ procedures should be right-sized for mission-critical operations by limiting intrusive inspections and digitising compliance, consistent with the vision for dedicated data centre economic zones.

Regulatory advances such as infrastructure status, the forthcoming National Data Centre Policy, and strong state-level incentives should be matched by harmonised Centre–state approvals and certification standards aligned to global benchmarks. Recognising data centres as essential services, while enabling green open access to power and modern, efficient cooling norms, will strengthen resilience and improve ESG outcomes.

A phased approach makes sense.

- In the near term, the focus should be on finalising policy and providing comprehensive tax guidance.
- In the medium term, targeted incentives for green infrastructure and data localisation may be rolled out.
- In the long term, it is necessary to enable models such as data embassies and integrated data cities to anchor sovereign-grade, export-oriented campuses as well as increasing domestic capacity.

The Government of India has been proactively engaging with all relevant stakeholders to ensure that sufficient certainty is provided on all relevant areas to ensure ease of doing business for the industry. If executed cohesively, this agenda can position India as a trusted global hub for compute and connectivity.



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Data Classification: DC0 (Public)

HS/November 2025 - M&C 49904