

Clarity on retrospective taxation of indirect transfers soon, says P Chidambaram

P Chidambaram on Wednesday said the government would soon announce changes in the tax framework to bring about clarity on the retrospective taxation of indirect transfers but refused to give out any details.

The changes would have implications for the I-T department's over Rs 20,000 crore tax demand on Vodafone for its acquisition of Indian company Hutchison Essar in 2007.

"Discussion is over. Drafting is going on. Decision has been taken.. Once the drafting is complete, it will come to me," finance minister P Chidambaram said in a clear indication that the government was looking to unveil the necessary changes in the taxation structure soon.

Chidambaram, however, refused to give any details about whether the changes that the government was proposing would require an amendment in the law or it would be done through an executive directive.

The income tax department had demanded nearly Rs 8,000 crore in tax from the British telecom major Vodafone for failing to withhold tax on \$11.2 billion payment made to Hutchison for the acquisition executed through a deal in Cayman Islands. The amount has increased to over Rs 20,000 crore including penalty and interest.

The company disputed the tax claim saying the deal was not taxable as it was executed overseas. The Supreme Court also ruled in Vodafone's favour. The government, however, retrospectively amended the tax laws in the budget for the current year, allowing tax authorities to tax overseas indirect transfers involving underlying Indian assets, virtually nullifying the apex **BSE 0.00 %** court ruling.

The issue was referred to a committee headed by Parthasarathi Shome after the amendment faced local and global criticism.

Prime Minister Manmohan Singh and finance minister P Chidambaram have said that the government would try and address all outstanding tax issues.

The Partho Shome committee in its report had said the tax should be applied prospectively, and if that's not possible, at least the interest and penalty amount should be waived off.

Asked about the controversial general anti avoidance rules, Chidambaram said the department had finished its groundwork on the issue and the decision now rested with Prime Minister. "It's (amendments to GAAR rules) with PMO. When PMO clears it, you will come to know. Our exercise is over as far revenue department is concerned," he said.

The Shome committee on GAAR had recommended that GAAR be deferred by three years but the CBDT opposed the report and favoured a deferral of just one year.

(Economic Times)