

Government-Vodafone talks focus on interest waiver

Finance ministry officials, led by revenue secretary Sumit Bose and Central board of Direct Taxes head Poonam Saxena, held a first round of talks with representatives of Vodafone Plc in an attempt to resolve the long-running tax dispute that has cast a shadow over India's investment climate.

There was no formal statement on what transpired at the meeting but sources close to the negotiations said that the discussions were focussed on waiver of interest imposed on the tax demand.

One person aware of the discussions said the basic or the principal tax amount was also the subject of negotiations and could also be reduced. A final outcome was yet to be arrived at, these sources pointed out.

Indian Tax authorities have imposed a tax liability of Rs 7,899.9 crore on Vodafone for what they term as the failure to deduct tax on its \$11 billion payment for the Indian telecom business of Hutchison Telecommunications International in 2007.

The interest liability on this comes to Rs 6,252 crore. Of this, 3318 crore is on account of the company 'failing' to pay tax when it became due till a formal demand notice was issued on October 22, 2010 while the balance is interest on the total outstanding as on date.

These liabilities have been imposed on the company under various sections of the Act. If the government waives off both interest and penalty, the latter for not deducting tax, Vodafone's tax liability will fall to a little less than Rs 8,000 crore.

Vodafone had acquired Hutchison Essar in 2007 from Hong Kong based Hutchison Whampoa through a \$11.2 billion overseas transaction. Indian income tax authorities slapped a Rs 20,000 crore tax including penalty on the company.

But of this, the penalty amount is almost certain to be waived, a person close to the discussions said, and the talks would focus on the interest component. The person declined to be named because of the sensitivity of the matter.

Vodafone's formal position, which it reiterated a few days back in response to a so-called 'reminder notice' from the tax authorities, is that no tax is payable.

In January last year the Supreme Court had had set aside the tax demand but the government amended the Income Tax law retrospectively in the budget making the company liable to pay tax. The move evoked condemnation from foreign investors, domestic industry and also foreign governments.

The Indian government subsequently referred the issue to a panel headed by Parthasarathi Shome, who is now P Chidambaram's advisor. Policymakers within the government are now keen to revive business confidence and send out strong signal to foreign investors that the country believes in stable and non-adversarial tax regime. Both Prime Minister Manmohan Singh and finance minister P Chidambaram have made promise on this count in the past.

The CBDT has the power to waive penalty and interest, and has in the past used these powers. It has also allowed payment of tax in installments in some cases when the law was retrospectively changed.

The Shome panel has also favoured such a move. The committee said the tax should be applied prospectively, and if that is not possible at least the interest and penalty amount should be waived off.

The CBDT however, did not favour the panel's recommendations except the waiver of penalty.

(Economic Times)