

## **Google India gets Income-Tax Dept notice for not revealing correct revenues**

Around the same time Telecom Minister Kapil Sibal was planning to pull up Google, the Income-Tax Department was giving the final touches to a tax demand on the Indian arm of the global search engine company.

Google India Pvt Ltd, according to the tax office, has not offered its entire income for taxation and the profit and loss account filed by the company "does not give complete picture of the businesses".

The department has questioned Google India's practice of paying tax on its 'net' income from advertisements, after crediting a sizeable amount as distribution fees to Google Ireland. Google India runs the 'Adwords' programme whereby advertisements that appear on its website are sold in India to Indian business establishments.

Tax officers have built their argument on the basis of the contract between Google India and Google Ireland. As per this, Google India is conducting the business and obtaining revenue from Adwords programme "on its own account". "This, according to the I-T department's interpretation, makes Google India a separate entity that should declare its full income for tax purpose," said a person who is aware of a tax assessment order that was served on Google India this week.

For the assessment year 2008-09, the order says Google India has admitted revenue of only Rs 7.49 crore instead of showing the "correct revenue of Rs 167.32 crore".

Besides, no tax was deducted at source against the amount credited to Google Ireland. Based on the tax on the 'gross income' and TDS, the department has made a claim of Rs 74 crore for the year.

Google India spokesperson did not reply to a text message and an email query from ET.

The firm is learnt to have told the department that there is "no omission in accounting of the revenue" and the transaction with Google Ireland is at arm's length and adequate documentation has been maintained to substantiate this.

According to a tax professional, the decision may have a wider impact and apply to some of the other search engines. "The earnings will come under tax net if the revenue is generated from India, even though the platform may be based offshore," said the person.

The assessing officer said, "...there has been a need for advertisers to advertise their services so that they appear on the first or second page of the specified search result page. This

increases the chances of the advertiser to be seen in the crowded market. In almost all these cases, it is seen that both advertiser as well as the service receiver are based out of India. To this extent, the entire or at least a substantially large portion of the revenue is generated in India only."

The order, therefore, observes that the income of Google Ireland has accrued as well as arisen in India itself.

Pointing out certain aspects of the search engine business and the contracts entered into by Google India, the department said Google India "would be deemed to be acting on behalf of Google Ireland and the 'permanent establishment' status for Google Ireland would thus be established."

An entity with a permanent establishment status comes under the purview of local tax authorities. Google India's businesses, according to the order, are "dictated by Google Ireland" and Google India "only gets a mark-up on marketing expenses in India and not any share of India generated profits from Adwords programme".

(Economic Times)