

No escape for Vodafone as government puts its name in report on black money

Vodafone tax case found a mention in the "White paper on black money" tabled by the government in Parliament on Monday, suggesting that finance ministry intends to go after the company once the retrospective amendment to the income tax act is approved by the President.

"The Vodafone tax case provides an instance of the misuse of corporate structure for avoiding taxes," says the paper authored by the revenue department and Central Board of Direct Taxes.

Vodafone faces tax demand of about Rs 20,400 crore including tax, penalty and interest on its \$11.2-billion acquisition of Hutchison's India operations, after the government changed the income tax law retrospectively to tax deals involving transfer of Indian assets.

In January this year, Vodafone had won a four-year-long legal battle with the government when the Supreme Court ruled that it did not need to pay tax on the transaction as it was executed by two overseas firms and there was no provision in Indian law to tax such deals, prompting the government to move an amendment in the Budget.

The white paper claims that the deal was executed 'through transfer of a solitary share of a Cayman Islands company' and Vodafone refused to share details of this company.

"When the tax authorities requested the accounts of the said company, the answer given was that as per Cayman Islands law, the company was not required to prepare its accounts," the white paper claimed.

Highlighting the misuse of tax havens, the white paper says Hutchison Group had made investments in India from 1992 to 2006 through a number of subsidiaries having 'separate corporate personality' but which were essentially post box companies based in the Cayman Islands, British Virgin Islands, and Mauritius.

The paper noted that tax authorities are not able to take action in cases where money is prima facie brought back to India through round tripping and other legitimate means.

"It is expected that efforts taken by India in this regard as also global pressure will provide a check on these tendencies," it observed.

(Economic Times)