

Vodafone capital gains tax settlement with Indian government breaks down

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India's Income Tax Department plans to issue another tax notice to British telecom multinational Vodafone after months of negotiations to settle a \$2 billion capital gains tax dispute failed. (For prior coverage, see [Vodafone in 'talks about talks' with India in effort to resolve long-running tax dispute.](#))

The tax demand arose from Vodafone's \$10.9 billion acquisition of the shares held by Hutchison Telecom International in Hutchison Essar, an Indian mobile phone company, in 2007.

The settlement negotiations had centred on the removal of penalty and interest charges from the \$2 billion tax demand and the government's acceptance of a payment of the principal tax amounting to about \$130 million.

"A tax demand notice is in the pipeline. It may be served on Vodafone anytime," said a senior official with the Income Tax Department who spoke on the condition of anonymity.

The breakdown of the negotiations between Vodafone and the Indian government became evident when the Ministry of Finance on 6 February 2014 circulated among Cabinet members a note proposing to withdraw the decision to negotiate a settlement of the seven-year-long tax dispute.

Mainstream media in India speculate that the government's decision to withdraw from the negotiations was triggered by Vodafone's continued insistence that a \$597 million tax demand arising from a separate transfer pricing dispute be included in the talks. That proposal was not acceptable to the ruling Indian National Congress party, which is facing a general election this year.

A Vodafone group spokesman said the company is not commenting on the case at this time.

The company's transfer pricing case concerns its issue of shares in its business process outsourcing arm, Vodafone India Services, to Vodafone Teleservices Mauritius for about \$39.5 million in a transaction that the Income Tax Department says was undervalued. The Income Tax Department issued the \$597 million tax demand, which was stayed in December 2013 by the Income Tax Appellate Tribunal, the second appellate forum for direct tax matters. (For prior coverage, see [Indian tax tribunal stays Vodafone transfer pricing demand.](#))

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