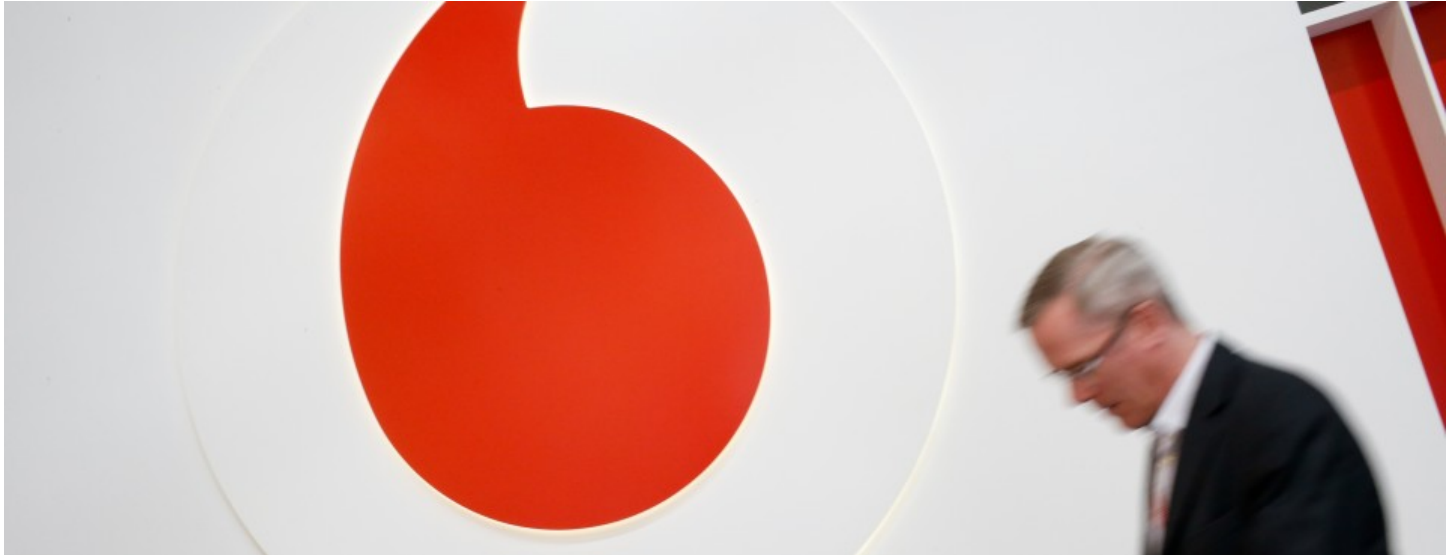


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An attendee passes the Vodafone Group Plc stand at the 2017 Mobile World Congress in Barcelona. The company is dealing with growing financial pressure as India tax authorities continue to scrutinize it.

Photographer: Pau Barrena/Bloomberg

Vodafone Could Face More India Tax Trouble After Court Ruling

By Benjamin Parkin

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- *Indian court agrees with tax department's decision not to release \$675 million*
- *Vodafone faces a potentially larger tax bill and ongoing financial pressure*

Vodafone faces a possibly larger tax bill and continued scrutiny from Indian tax authorities after a recent court ruling, increasing financial pressure on the troubled telecom giant.

Vodafone Mobile Services Ltd. was after almost \$700 million it said it was owed in tax refunds from 2014 through 2018. But Delhi's High Court on Dec. 14 found that tax authorities were right to sit on the sum as they investigated whether the company had correctly reported its taxes.

For Vodafone, which has a history of disputes with Indian revenue authorities, the ruling leaves it facing a protracted bout of uncertainty. The company is fighting its way through a price war that has rattled the Indian telecom industry, which it said caused "immense financial stress."

The decision comes as Vodafone and Indian authorities gear up for the biggest clash of all, as a case, stemming from a retrospective change to tax law, heads to an international panel in 2019. Tax authorities argued that Vodafone owes tax on its 2007 acquisition of telecom company Hutchison Essar Ltd., a claim that went all the way to the Supreme Court.

Tax advisers said Vodafone would likely appeal the ruling at the Supreme Court as it seeks the much-needed cash injection. Alternatively, the company could opt to let the tax department take its time processing the returns and earn interest on the funds. But its financial situation means that option is less viable.

Vodafone “would need the money for the business,” said Riaz Thingna, a direct tax partner at Walker Chandiook & Co LLP. “Vodafone would be far happier to apply the funds for the purposes of the business, when the business itself requires a large amount of working capital.”

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Vodafone sought 47 billion rupees (\$675 million) plus interest in refunds, arguing that the tax department took too long processing its tax returns and should return the funds in the interim.

However, the court agreed with the tax department’s position that it could withhold the sum while it gave the returns further scrutiny.

Tax officials said they had flagged a number of points of concern in the returns, leaving them with reason to believe that Vodafone would likely owe more tax than it said. “There is some merit in the revenue’s argument,” the judges found. “Further, the likelihood of substantial demands upon the assessee after the scrutiny for the [assessment years] is completed, cannot be ruled out,” they added. The judges also noted that the tax authority “should have the right to adjust the demands against the refunds that may arise but have not yet been determined due to ongoing scrutiny proceedings.”

“The tax department believes that when the final assessment is done there’ll be a huge tax demand,” said Uday Ved, a partner at KNAV.

Ved expects Vodafone to appeal the decision, which would take the case to the Supreme Court.

Price Wars

Like other Indian telecom companies, Vodafone has been struggling with the effects of a price war after India’s Reliance Industries Ltd. launched its own mobile network operator Jio in 2016 and started offering services at rock-bottom rates—and even for free.

Vodafone said in 2017 it was under “immense financial stress,” according to the court order.

The pressure contributed to the Vodafone Group Plc’s decision to merge its Indian business with Idea Cellular in August 2018 and become Vodafone Idea Ltd. In the quarter ended before the merger, Vodafone said its India revenue fell 22 percent to 959 million euros (\$1.09 billion) from 1.38 billion euros a year earlier.

While the \$675 million it was after wouldn’t have solved its troubles, said Jayanth Kolla, a partner at telecom industry consultancy Convergence Catalyst, it would have provided a valuable boost at a difficult time.

"It's a fairly significant number which the company would plough back into its India operations," he said.

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