

# I-T DEPT ACCUSES CHINESE TELECOM FIRM HUAWEI OF EVADING TAXES

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**NEW DELHI** : Chinese telecom gear maker Huawei tried to evade taxes in India by manipulating its books over several years, a tax official said on Thursday. The suspected attempt to reduce taxable income through various expenses that lack financial rationale was discovered during last month's tax searches at the company's premises, the official said on condition of anonymity.

In a statement that did not specifically name Huawei, the income tax department said earlier in the day that the group failed to provide any substantial and appropriate justification for claims of expenses under provisions for obsolescence, warranty, debts or loans and advances.

"The income tax department conducted search and seizure operations on a multinational group, engaged in the distribution of telecom products and providing captive software development services, on 15 February. The ultimate shareholding of the group lies with a foreign entity of a neighbouring country," the statement said.

Queries emailed to a Huawei spokesperson on Thursday afternoon remained unanswered till press time.

On 15 February, the tax department conducted search and seizure operations on Huawei across Delhi, Gurugram and Bengaluru, covering the business premises of the company and the residences of its top executives. "The search action has revealed that the group has made inflated payments against receipt of technical services from its related parties outside India. The assessee company could not justify the genuineness of obtaining such alleged technical services in lieu of which payment has been made as to the basis of determination of consideration for the same. The expenses debited by the assessee company towards receipt of such services are to the tune of 129 crore over a period of five years," the statement said, and added, "Further investigations are in progress."

Chinese firms have been under scrutiny in India as part of a larger economic response against China after the 2020 clashes in Ladakh that killed 20 Indian Army personnel. Chinese state-sponsored threat actor group known as Red Echo had also targeted India's power sector infrastructure, including regional load dispatch centres and state load dispatch centres .

Earlier, India had issued a tax demand of 653 crore to Xiaomi Technology India Pvt. Ltd for alleged violations of the Customs Act, saying the company did not include royalty and licence fees in the value of its imports.

India had earlier allowed Huawei to participate in 5G trials in India but after a long wait due to concerns over national security.

India also banned more than 200 Chinese apps for allegedly collecting sensitive user data. It is also strictly monitoring imports to ensure goods from China are not routed through other nations and dumped in the country.

On Thursday, the department said evidence gathered and statements recorded during search also reveal that one of the group entities engaged in providing software development services has been disclosing lower net margins from the related parties by claiming its operation to be of low-end nature. But evidence showed that the entity has been rendering significant services or operations of high-end nature, and suppression of income of 400 crore was detected.

“The assessee company could not justify the genuineness of obtaining of such alleged technical services in lieu of which payment has been made as also the basis of determination of consideration for the same,” the department said. It also found that the group had debited more than 350 crore in its books of account in recent financial years as royalties to its related party, and expenses were incurred for using the brand and technical know-how related intangibles. “The group has failed to substantiate receipt of any such services/technical know-how or basis of quantification of royalty rate for such claim. Consequently, the rendering of services and such royalty payments become highly questionable and prima facie, disallowable as business expenses as per extant income tax law,” the statement said.

After the 2020 border clash, New Delhi had made investment inflows from companies and residents in countries with which India shares a land border under the approval route.

“The search action has further revealed that the group has manipulated its books of account to reduce its taxable income through the creation of various provisions for expenses, such as provisions for obsolescence, provisions for warranty, doubtful debts/ loans and advances, etc., which have little or no scientific/financial rationale,” the statement said.

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