

**Government of India
Ministry of Finance
Department of Revenue
Central Board of Direct Taxes**

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PRESS RELEASE

Income Tax Department conducts searches in a major Telecom Group

The Income Tax Department conducted search & seizure operations on a multinational group, engaged in distribution of telecom products and providing captive software development services, on 15.02.2022. The ultimate shareholding of the group lies with a foreign entity of a neighbouring country. The searches, which were spread across Delhi, Gurugram and Bengaluru covered the main business premises and also the residential premises of the key office bearers.

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 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 expenses debited by the assessee company towards receipt of such services are to the tune of Rs. 129 crore over a period of five years.

During the search, it was found that, the assessee group has debited more than Rs.350 crore in its books of account in recent financial years towards royalty to its related party. Such expenses have been incurred for the use of brand and technical know-how related intangibles. During the search, the group has failed to substantiate receipt of any such services/technical know-how, or the 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.

Evidences gathered and statements recorded during the 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. However, the evidences collected during the investigation indicated that this entity has been rendering significant services/operations of high-end nature. On this aspect, suppression of income of Rs. 400 crore has been detected.

The search action has further revealed that the group has manipulated its books of account to reduce its taxable income in India through creation of various provisions for expenses, such as provisions for obsolescence, provisions for warranty, doubtful debts/ loans & advances etc., which have little or no scientific/financial rationale. During the investigation, the group has failed to provide any substantial and appropriate justification for such claims.

Further investigations are in progress.

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