Taxmen slap notice on Cadbury & Kraft post FinMin directive

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THE income-tax department has issued a notice to Cadbury India and its overseas parent Kraft Foods seeking details of its $19-billion global takeover of Cadbury last year.The notice follows a directive from the finance ministry after a public interest petition was filed in the Delhi High Court in 2010 claiming that Kraft had completely and illegally avoided tax liabilities related to the sale of shares and capital assets in India.

The move is the latest in a series of efforts by the Indian Revenue to tax overseas deals,the most famous being the Vodafone deal.Indian tax authorities have asked Vodafone to pay $2.5 billion tax on its 2007 purchase of Hutchison Whampoas mobile business in India.Vodafone has challenged the demand and the case is now in the Supreme Court.

I-T officials confirmed the development,An enquiry is on and we are in the process of collecting the details of the transaction a senior official said.A Kraft Foods spokesperson sought to play down the significance of the notice.

The court has not granted any relief to the petitioner and has instead suggested to the petitioner to file a representation with the Government and the Indian Tax authorities to take appropriate steps to respond to the queries raised.Kraft Foods is fully committed to complying with the Indian law and is responding to queries raised by the Indian tax authorities.

Senior officials close to the development said the India business is a very small part of the overall global acquisition of Cadbury Plc UK shares by Kraft Foods.Consequently,this transaction is completely different as compared to Hutch-Vodafone,they said.

In 2009 UK-based Cadbury PLC had a turn-over of 5.9 billion or 43,700 and profits of 808 million or 5,878 crore.Cadbury India,with a topline estimated by industry officials at 2000 crore in 2009,is much smaller.It is present in categories such as chocolate confectionery,milk food drinks,candy and gum and registered a profit estimated to be around 250 crore.The company was delisted in 2007 and its numbers are not readily available.

Some of its top brands include Cadbury Dairy Milk,5 Star,Perk,eclairs and Celebrations.In the chocolates segment,Cadbury products account for more than 70% of revenues.

A well-known lawyer criticised the action of the revenue authorities.We are engaged in unending negotiations concerning indemnities,escrow arrangements,and tax insurance policies in number of international M&As.This is delaying further investment in India and putting off many companies now that the markets are ebbing low, Says Nishith Desai of Nishith Desai Associates.

The worlds second biggest processed foods company,Illinoisbased Kraft Foods take-over of British confectionery maker Cadbury enabled it to enter the only big emerging market it did not yet have a presence in.The UK-based Cadbury Plcs strong grip on India and other emerging markets was a considerable factor in Kraft Foods aggressive take-over offer for the UK-based candy maker.

COUNTERING CHARGES

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Corporate [Next]