

Indian 'tax terrorism' and red tape blamed by businesses for falling foreign investment

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On the face of it, expanding operations in one of the world's fastest-growing countries should be a no-brainer, but for bearings maker Timken India, there may be easier places to do business.

Sanjay Koul, managing director, told investors last year that the US-headquartered parent company could instead look at other countries "where there is less of tax terrorism" and "where they can have ease of doing business". Since then, the company has been slapped with a Rs250mn (\$2.9mn) unexpected tax demand, which it is contesting.

For Timken, there are still good reasons to be in India, and Koul said the country was "a great place to source". But when asked about further investments there, he said that "obviously, we want to carefully invest, so that we get the best bang for the buck".

The experience of a company that has

been in India for about three decades, employs more than 1,200 staff and has operations in several states speaks to the challenge facing authorities as economic growth slows.

Investors have long urged India to reduce red tape, relax labour laws and simplify the tax system and compliance, arguing that reform could stimulate investment and create jobs.

At a time when Narendra Modi, prime minister, has wooed global investors such as Apple and wants to establish India as a global manufacturing hub to rival China, it has become a matter of pressing importance.

V Anantha Nageswaran, Modi's chief economic adviser, has urged central and state governments to "get out of the way" and to start "rolling back regulation significantly" or face a "high risk of economic growth stagnation".

With India's growth forecast at 6.5 per cent for the fiscal year, down from 9.2 per cent in 2023-24, Nirmala Sitharaman, finance minister, in February used this year's budget to announce a review

of business rules, certifications, licences and compliances as well as the creation of an investment friendliness index of states.

Just before his appointment as governor of India's central bank, former revenue secretary Sanjay Malhotra in December warned government tax officers that they should "not kill the golden goose" with their demands.

Many blame red tape and erratic enforcement of taxation for falling investment. Net foreign investment flows fell to about \$1.2bn during April to December, from \$7.8bn during the same period in the previous year, according to the central bank's February economic bulletin.

Under Modi, India has eased company registrations, consolidated labour codes and digitised tax processes, all with the aim of making life easier for business.

Still "nobody is going to consider India an easy country to do business in, there is still a lot of capriciousness in the implementation of rules and regula-

tion", said Nirmalya Kumar, professor at Singapore Management University. The former Tata Sons executive said that it remained difficult to set up and exit a business and fire people.

Several regulations dated back to the early days of independence from Britain, said Ajay Shriram, chair of the Ease of Doing Business task force at the Con-



Slowing: growth is set to fall to 6.5 per cent this year, from 9.2 per cent

federation of Indian Industry. Although seldom enforced, he said the Factories Act of 1948 could result in jail terms for business owners for minor violations — including not whitewashing toilets.

A landmark national goods and services tax reform in 2017 did simplify the tax system, but many companies still fall foul of the system and are sucked into marathon legal disputes. Taxes are levied at three levels — central, state and local — and can be interpreted in a vague and contradictory fashion.

In February, in the High Court of Mumbai, a lawyer for German carmaker Volkswagen's Indian arm argued that a \$1.4bn tax demand made on the company last year over an alleged misclassification in the import of car parts was a "matter of life and death" for a carmaker that employs 4,500 people.

In August, Indian technology services giant Infosys was hit with a \$4bn retrospective tax notice. South Korean carmaker Kia is also fighting tax demands.

In February, Sitharaman put forward a bill in parliament that proposed cut-

ting half of the 500,000 words in the 1961 income tax manual in an effort to reduce disputes.

Contested tax demands totalled Rs13.4tn as of March 2024, according to the finance ministry.

Alcoholic drinks companies, including Diageo, Pernod Ricard and Heineken's Indian businesses have been targeted in raids and embroiled in tax and licence disputes amid an ever-shifting patchwork of regulation, in a country where booze is seen as taboo by many and a cash cow by states that retain control over liquor taxation.

Against this backdrop, many businesses see China's centralised system as more attractive.

"If you set up a factory in China, you get everything right up there, signed, sealed and delivered up front with a lot of land, with all the connections given, road access given and the only job is to set up the factory," said a top executive at a big Indian company. In India, "they just let it meander, rather than somebody taking charge".