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TAXMAN RAISES ₹250-270-CR DEMAND

Sun Pharma Under I-T Lens

Technology transfer with its overseas entity Sun BVI, R&D expenses at Sikkim unit under scanner

ASHWIN MOHAN
ET NOW

The income-tax department is investigating Sun Pharmaceuticals, the country's biggest drug maker, for some related-party transactions and alleged misuse of research & development expenses, three people familiar with the development told ET NOW. This comes after the Andhra Pradesh High Court put on hold the company's ₹4-billion acquisition of Ranbaxy Laboratories over insider trading charges.

One of the people mentioned above said the income-tax probe relates to the actual price at which a transaction takes place between two related entities, usually belonging to the same group.

"The income-tax department suspects that certain related-party transactions on technology transfer between Sun Pharma and overseas entity Sun BVI were not conducted at arms length and have consequently attracted transfer pricing scrutiny," one of these people said.

"The second allegation relates to misuse of R&D expenses at Sun Pharma's Sikkim unit, which is er-

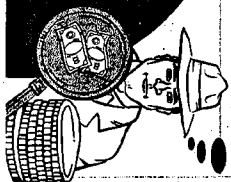
Cloud Over Sun Transactions

₹250-270 CR
Tax demand raised by I-T authorities in four separate orders against Sun Pharma

R&D expenses of Sun's Sikkim unit, which enjoys tax sops, were also debited in the books of its Mumbai unit.

Weighted tax deduction being claimed on ineligible expenditure & capital expenses being claimed as revenue expenses are some of the other alleged irregularities

I-T dept suspects some technology transfer transactions between Sun Pharma and its overseas entity Sun BVI were not conducted at arms length and hence have attracted transfer pricing scrutiny



The Andhra Pradesh High Court has put on hold Sun Pharma's ₹4-billion acquisition of Ranbaxy Laboratories over insider trading charges

empt from tax under Section 80IC of the Income Tax Act. The department believes that R&D expenses pertaining to this unit were also being debited in the books of Sun Pharma Mumbai, thereby, reducing the profits of the Mumbai unit." Sun Pharma has a formulations unit at Gangtok in Sikkim. The state became eligible for tax benefits after it was included in the North East Industrial & Investment Promotion Policy in 2007.

Weighted tax deduction being claimed on ineligible expenditure and capital expenses being claimed as revenue expenses are some of the other alleged irregularities raised by revenue authorities against Sun Pharma, the second of the three people mentioned earlier said. "The income-tax department has issued four separate orders against Sun Pharma demanding ₹250-270 crore. The latest order was issued in March 2014 for assessment year 2010-2011, seeking nearly ₹140 crore," the third person said.

Sun Pharma refused comment on a detailed email query on the specifics of the tax demand orders.

But a senior pharma analyst, speaking on condition of anonymity, said: "Sun Pharma is likely to contest these demand orders at various appellate forums and seek relief."

ET had on April 30 reported that the Andhra Pradesh High Court had asked stock exchanges not to approve the Sun Pharma-Ranbaxy deal until it decides on a petition filed by a group of investors alleging insider trading by entities with prior knowledge of the deal. The court has admitted the petition and issued notices to Sun Pharma, Ranbaxy, SEBI, NSE, BSE and Silverstreet Developers, a limited-liability partnership owned by two subsidiaries of Sun Pharma.

The high court is scheduled to hear the case on June 5.

In a statement earlier, Sun Pharma had said: "The matter related to purchase of shares of Ranbaxy Laboratories Ltd does not violate insider trading rules. With regards to the petition filed, the matter is sub-judice and, hence, we cannot make specific comments but we would be taking appropriate action as advised by our legal counsel."

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