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# India Union Budget 2019-20

**Point of View**

## Private Equity

#UnionBudget2019 #KPMGBudgetLIVE

## Key announcements for the sector

- **Key tax incentives to units located in International Financial Services Centre (IFSC):**
  - — 100% tax holiday proposed for units in IFSC for 10 consecutive years out of 15 years
  - — Capital gains tax exemption to Cat III Alternative Investment Funds (AIF) located in IFSC and having only non-resident unit holders and earning its income solely in convertible foreign exchange
  - — No tax on interest earned by non-residents from IFSC units in relation to loans provided after 1 September 2019.
- **Safe harbour rules for offshore funds:**
  - — Relaxation proposed in relation to corpus of newly set up funds and remuneration paid to the eligible fund manager.
- **Angel tax exemption to Category II AIF:**
  - — Currently investment by Venture Capital Funds is exempted from the applicability of fair market valuation requirement for investment in Venture Capital Undertaking. It is proposed to extend this benefit to investments by Category II AIF.
- **Pass through of losses of Category I and II AIF**

  The current law provides for set-off of losses at AIF level and consequently losses are not available for set off for unit holders. To remove the said difficulty, it is proposed that:
  - — Business losses shall continue to be set off at AIF level
  - — Losses other than business loss shall be deemed to be the losses of the unit holder
  - — No pass through of losses to unit holders in respect of units held by unit holder for less than 12 months
  - — The accumulated losses (other than business loss) as on 31 March 2019 available at AIF level shall be deemed to be losses of unit holders as on 31 March 2019.
- **Buyback tax on listed shares**
  - — It is proposed that buyback of listed shares shall be subject to buyback distribution tax as in the case of unlisted shares. Consequentially, the amount shall be exempt from tax in the hands of shareholders.
- **Impetus to Start-ups**
  - — Provisions of carried forward and set-off of losses for start-ups have been liberalised

— E-verification mechanism to be introduced to resolve the issue of identity of investor and sources of his funds

— Administrative arrangements to be made by CBDT for pending assessments and redressal of grievances proposed

- **Other tax announcements**

  — The Central Board of Direct Taxes (CBDT) will prescribe transactions which will have relief from the provisions of Section 56(2)(x) and 50CA of the Income-tax Act, 1961, where the transaction is not undertaken at prescribed value. Further, the CBDT will provide exemptions from the applicability of Section 50CA of the Act similar to the exemptions under Section 56(2)(x) of the Act

  — Lower corporate tax rate of 25% for domestic companies with turnover of less than INR400 crore

  — Scope of relaxation in relation to MAT and carry forward of tax losses of stressed companies under Insolvency and Bankruptcy Code expanded to distress companies under Companies Act

- **Key regulatory proposals**

  — SEBI to increase minimum public float from 25% to 35%

  — Suggestions for opening up of Foreign Direct Investments (FDI) in aviation, media and insurance sector

  — 100% FDI for insurance intermediaries

  — Local sourcing norms to be eased for FDI in Single Brand Retail Trade

  — Investment by Foreign Portfolio Investors (FPI) in debt securities of Infrastructure Debt Fund can be transferred to any domestic investor within the specified lock-in period

  — Rationalising and streamlining the existing KYC norms for FPIs

  — Increasing the statutory limit for FPI investment in a company from 24% to sectoral FDI caps

  — FPIs permitted to subscribe to listed debt securities issued by Real Estate Investment Trusts and Infrastructure Investment Trusts.

# Implications for the sector

The Finance Minister (FM) presented earlier today the maiden Budget after the general elections. The FM laid down the vision to make India a USD5 trillion economy in a few years. The FM stressed on the motto of “Reform, Perform and Transform”. The Budget tries to provide much needed impetus to key sectors which shall drive India’s growth story and help achieve the vision.

At a macro level, the budget provides emphasis of increasing infrastructure investment, increasing availability of credit, women empowerment and boost foreign investments in India.

On the policy side, in so far as the Private Equity and investors in general are concerned, the key takeaways are:

a. Further liberalisation of certain FDI sectors

b. Increasing investment limits for FPI investments

c. Long standing demand of AIFs to allow pass through of losses to unitholders has been granted

d. Angel tax relaxation for Category II AIF.

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