## Tax Exemption Could Revive MF Interest in PTCs

Finance Minister Arun Jaitley's clarification in the Budget for 2016-17 that mutual funds' income from pass through certificates or PTCs will not be taxed has ignited hope of a revival in demand for such securities after a dip in volumes in the past couple of years.

Fund managers are, however, awaiting the fine print in the Finance Bill, particularly to confirm that the tax on income from PTCs will have to be paid for by investors and not by mutual fund trusts. The finance minister also said in his budget proposals that the government will allow foreign institutional investors to invest in PTCs. PTCs are securities issued to investors against mortgaged backed loans of non-banking finance companies and banks. These loans are securitised and sold to an investment entity, such as a mutual fund, thereby transferring the future cash flows to the buyer of the security for a price.

“Mutual funds were big investors in these papers till a few years ago but the tax issues in the last few years led to a drop in their volumes in the market. The clarity in taxes will definitely interest me and other fund managers, but we are awaiting the final details,“ said Dwijendra Srivastava, chief investment officer-debt at Sundaram Mutual Fund.

In 2012, income tax authorities had sent notices to mutual fund trusts seeking payment on tax on income from PTCs. The trusts argued that the tax should be borne by investors since the income from these investments is transferred to investors in the fund. Some of these cases are still in court. Subsequently , Finance Bill 2013 officially introduced this tax.

As a result, mutual funds stopped buying these papers and the PTCs declined sharply to Rs. 17,000 crore in 2014-15 from Rs. 27,000 crore in 2013-14, according to Crisil estimates.

“These measures are expected to renew the interest of institutional investors, especially mutual funds and FIIs, in securitisation and bring back volumes through the PTC route,“ said Krishnan Sitaraman, senior director at Crisil Ratings. However, there is a question mark on whether FIIs would really want to buy these securities since the market is not as liquid as other debt instruments such as government securities and corporate bonds.

Bankers are optimistic that securitisation market will become more active. “We are very optimistic that this should go a long way to make the securitisation industry far more vibrant and lead to larger financial inclusion, “said Sujata Guhathakurta, head of debt capital market at Kotak Mahindra Bank.

Arvind Rana, associate director at India Ratings & Research struck a cautious note, though. “No doubt clarity in the tax treatment will help participants gain clarity to invest. But demand will rise gradually.”

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