Tax ambiguity clouds new financial sector initiatives

Instruments such as Reits, InvITs, unsponsored GDR, GIFT find few takers

At least five new fundraising avenues, despite having cleared with much fanfare by the regulatory authorities, have remained doubtful starters due to lack of clarity on the taxation front.

Instruments such as Real Estate Investment Trusts (Reits), Infrastructure Investment Trusts (InvITs) and unsponsored depository receipts (DRs) have failed to take off.

Even the Gujarat International Finance Tech, or Gift) City, has yet to see any business, despite many blue chip companies showing interest in set their shops there. An official said they were in the process of removing impediments to make sure these new initiatives take off. "The Department of Economic Affairs (DEA) is in touch with the revenue ministry to clear these hurdles. The past two Budgets have had numerous announcements for capital markets. We are trying to iron out some of the pending issues," said the official.

Reits, InvITs and unsponsored DRs were a part of Finance Minister Arun Jaitley's maiden Budget speech. Subsequently, the Securities and Exchange Board of India (Sebi) cleared the decks to their launch by notifying regulations.

However, the regulations were not enough as these instruments got mired in tax ambiguity. Many real estate players are in active discussion with the finance ministry to solve tax issues. " The market is finding it hard to launch these products, as there is tax complexity on components of income within these instruments, especially in Reits.

Further, lack of any special tax dispensation is making these instruments less attractive," said Riaz Thinga, partner, Walker Cahdiok & Co.

Recently, the Sebi chairman stated that it had cleared all issues related to the instrument and what was pending was only tax clarity.

In case of DRs issued at back of shares is exempted from capital gains. However, DRs issued on the back of other permissible securities are not exempted. Additionally, there is no specific exemption from capital gains tax for conversion of a DR.

The revenue ministry has not been keen on clearing this hurdle, as they fear it could lead to money laundering.

Six months after the launch of GIFT in Ahmedabad, YES Bank became the first bank to start its banking operations. But, for exchanges, the wait could be longer.

"BSE is in the process of setting up a new international exchange in Gift City in partnership with Deutsche Borse. Regulations on the exchange side are already in place, but clarifications related to the Companies Act and tax matters are to be announced," said Ashish Chauhan, MD & CEO, BSE.

According to the market players, it will come across as a half- hearted attempt if India doesn't have a globally competitive tax structure for Gift.

"There is a need for special tax advantage for Gift such as removal of securities transaction tax (STT), commodities transaction tax (CTT), a favorable withholding tax structure at five per cent," said Thinga.

(Business Standard)