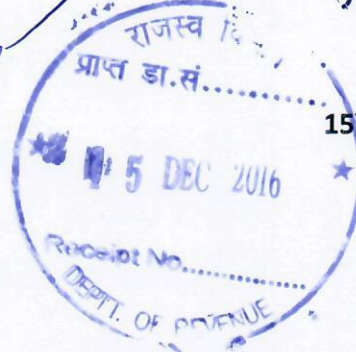



IVCA
IVC ASSOCIATION
THE INDIAN PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION

To,

Shri. Amitabh Kumar
Joint Secretary, CBEC – GST
Ministry of Finance, Government of India,
North Block, New Delhi 110001.

15th December, 2016



Subject: Recommendation of 12 % GST rate for the Alternative Investment Funds

Dear Sir,

Thank you for your time to meet with us on 14th December. As highlighted the important role played by AIFs in contributing to nation building as engines of economic growth has been clearly brought out in the AIPAC Report.

An AIF, though a commercial set up, is distinct or unique in its operations i.e. unlike other commercial ventures, an AIF being a pooling vehicle represents the interest of its investors. Therefore, a tax paid by an AIF ultimately affects the investment by the investors, which could deter much needed investments and investment objectives that are sought to be promoted by AIFs. Importantly, unlike manufacturers or other service providers, who can avail credit, the GST paid by an AIF is likely to be an ultimate cost in its hands.

On account of the above reasons, it is recommended that this sector may be taxed at the GST rate of 12% and detailed in the Annexure.

Kind regards,

Rajat Tandon
President, IVCA
(M) 9810090194

cc: Aakriti Bamniyal, AVP, IVCA, 097 1111 001; Yogesh Arora 095 400 84999

Annexure- 1

I Critical Issues that require immediate implementation

a) Due to non-availability of input tax credit of Service tax/ GST on expenses/ procurements made by AIFs; the cost of investing in AIFs would increase

1. In India, the taxation of services is presently governed under the provisions of Chapter V of the Finance Act, 1994 (service tax legislation). Further, the Goods & Services Tax ('GST') legislation is proposed to be implemented in India wef 1 April 2017.
2. With the introduction of GST, the tax base will be widened, as most of the goods and services will be taxable, with minimum exemptions. In case of AIFs, the most significant expenses on which Service Tax/ GST would be levied is the services received from the fund managers located in India.
3. Since, AIFs do not have any output indirect tax liability i.e. service tax/ GST, any service tax/ GST paid on procurements will ultimately become a cost to the AIF.
4. From an income-tax standpoint, the investors in AIFs are not allowed a tax deduction for most of the expenses incurred by the AIFs. Resultantly, the cost of investing in AIFs will significantly increase if the GST rate is fixed at a level higher than the present service tax rate of 15%.
5. The GST Council has decided on a four tier GST rate structure that would be 5%, 12%, 18% & 28%. Most of the goods and services would fall in 12% and 18% bracket, with services mostly likely to be taxed at 18%.
6. Considering the important financial intermediation role performed by AIFs in channelizing investments into seed capital, early stage and growth companies, services to AIFs should be chargeable at a lower rate.

Recommendation:

Fund management and other services to AIFs should be chargeable to GST at the rate of 12%