
IVCA
IVC ASSOCIATION
THE INDIAN PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION

To,

Mr. S.K. Sahai
Member A&J, P&V
Central Board of Direct Taxes (CBDT),
Ministry of Finance, North Block,
New Delhi, India

28th October, 2016



Dear Sir,

Subject: - IVCA's pre-budget memorandum for Union Budget of India for FY 18

Thank you for your time today. As mentioned please find attached the revised details on the VC/PE industry which has invested over \$130 billion in the last 10 years to a large number of Indian companies at different stages of evolution, with about USD 7 – 10 billion invested in 300 – 400 transactions every year. In 2012, the erstwhile Venture Capital Funds Regulation (VCF Regulations) with AIF Regulations and brought in a series of tax reforms. In November 2015, the government made giant strides by bringing in policies enabling commingling of foreign and domestic capital in Indian AIF with the objective of making AIFs the primary investment vehicle to raise both domestic as well as foreign capital. Post this, AIFs have raised a total commitment of ~\$2.7 bn in the past 6 months which is much higher than the total commitment raised since 2012. Further, it has also become the fundamental tool for implementing various government policies such as ₹10,000 cr. SIDBI start up fund, ₹20,000 cr NIIF. etc.

However, there are still some important road blocks, though minor in nature are major in impact. Removing these roadblocks has the potential to increase the yearly capital deployment through AIFs to 4X by the year 2025. This requires government's support with a few regulatory changes that would help significantly attracting capital and realizing the said potential.

All our recommendations are also oriented towards achieving this objective and making AIFs The recommendations are based on the following fundamental principles:

- Create certainty, clarity and consistency in taxation
- Increasing the ease of doing business
- Facilitating foreign funds to manage in India
- Revenue neutrality for the Government

Given the extraordinary support extended by Government in the past, we really look forward to an expeditious and favorable action to facilitate larger inflows through AIFs.

Thank you and wishing you a very happy Deepawali!



Gopal Srinivasan
Chairman, IVCA

Table of Contents

1. Presentation from IVCA on pre-budget memorandum for Union Budget of India FY 18	No.
a. Agenda	2
b. Overview of AIF industry	3-9
c. Core principles based on which recommendations are made	10
d. A brief of the key policy initiatives	11
I. Critical roadblocks that significantly impact capital flows	12
i. Certainty on treatment of gains on sale of unlisted securities as capital gains	13
ii. Pass through tax status to extend to Category III AIF	14
iii. Making fund management safe harbour provisions effective	15-17
II. Other initiatives	18
2. Recommended circulars to be issued to implement the above	No.
I. Critical road blocks that significantly impact flow of capital	
A Certainty on treatment of gains on sale of unlisted securities as capital gains.....	1-2
B Extension of Tax Pass through to Category III AIFs.....	3
C Making the fund management safe harbour provisions effective.....	3-4
Other Initiatives	
A Pass through tax status to be extended to net losses incurred at AIF level i.e. Losses incurred by AIFs should be available for set-off to its investor.....	5
B Exemption for AIFs from (a) section 56(2)(viib) on issue of shares at a value higher than fair market value and (b) section 56(2)(viiia) on purchase of shares at a value lower than fair market value.....	5
C Distribution based taxation.....	6-8
D Unit based taxation.....	9-11
E Clarification for no taxability on conversion of preference shares and inclusion of the period of holding of convertible preference shares (pre-conversion) in the period of holding of equity shares received on conversion.....	11-13
F Speed up the process of issuing lower/ nil withholding certificate.....	13
G Clarification on indirect transfer provisions for multi-layered structure.....	13
H Extension of beneficial tax rate of 5% on interest income fro.....	14
i) foreign currency loan or long-term bond by non-residents under section 194LC	
ii) rupee denominated bonds and government securities by FPIs under section 194LD	