

7th March 2008

Budget Proposal

Four services brought under service tax net namely, asset management service provided under ULIP, services provided by stock/commodity exchanges and clearing houses; right to use goods, in cases where VAT is not payable; and customized software, to bring it on par with packaged software and other IT services.

Impact

Above four services, being brought in the service tax net, will become expensive and may affect the returns on investment made by PE/VC in above sectors.

Budget Proposal

Income Tax Act to be amended to provide that reverse mortgage would not amount to "transfer"; and the stream of revenue received by the senior citizen would not be "income".

Impact

Reverse mortgage is new thing to India and is expected to catch up very fast. With the above proposal, financial sector may see boom in reverse mortgage business. VC & PE may look positively at this sector for investments.

Budget Proposal

Parent company allowed to set off the dividend received from its subsidiary company against dividend distributed by the parent company; provided that the dividend received has suffered DDT and the parent company is not a subsidiary of another company.

Impact

Relief in Dividend Distribution Tax (DDT) may increase the returns on investment of VC/PE who have invested in companies as mentioned above.

Budget Proposal

Insert a new sub-section (11C) in Section 80-IB to grant a five year tax holiday to hospitals located in any place outside the urban agglomerations especially in tier-2 and tier-3 towns; this window will be open for the period April 1, 2008 to March 31, 2013.

Impact

VC & PE may look at investment opportunities in above specified hospitals and expect good returns on their investments. They can plan their entry and exits accordingly.

Budget Proposal

Five year holiday from income tax being granted to two, three or four star hotels established in specified districts having UNESCO-declared 'World Heritage Sites'; the hotel should be constructed and start functioning during the period April 1, 2008 to March 31, 2013.

Impact

VC & PE may look at investment opportunities in above specified hotels and expect good returns on their investments. They can plan their entry and exits accordingly.

Budget Proposal

Rate of tax on short term capital gains under Section 111A & Section 115AD increased to 15 per cent.

Impact

Though generally VC or PE does not look at Short Term Capital Gains, However, if some VC or PE holding listed securities, want to exit in short term (may be because share market is not doing well) then they have to pay 15% Short Term Capital Gain Tax instead of 10% earlier. In any case funds from Mauritius or like tax heavens will not be affected due to DTAA.

Budget Proposal

Anti AIDS drug, Atazanavir, as well as bulk drugs for its manufacture are to be exempted from excise duty.

Impact

VC & PE may look at investment opportunities in Pharma Sector, specifically in area as mentioned above. If VC / PE who have already invested in above area may expect better returns on their investments and accordingly they may plan their entry and exits.

Budget Proposal

Excise duty being exempted on end-use basis, on refrigeration equipment (consisting of compressor, condenser units, evaporator, etc) above 2 TR (tonne refrigeration) utilising power of 50 KW and above.

Impact

VC & PE who have invested in above can expect better returns on their investments and accordingly they may plan their exits.