**Biz trusts to get tax breaks**

As Sebi readies to introduce the concept of Real Estate and Infrastructure Investment Trusts in the country, the government has decided to provide significant tax benefits for these listed business trusts.

The proposed tax exemptions and benefits notwithstanding, these new investment instruments would still be 'revenue accretive' for the government in the form of additional taxes.

Among other exemptions, any capital gains tax on units of InvITs would be levied only at the time of ultimate disposal of the units of the sponsor under the new norms, sources said.

However, the sponsor would not be entitled the concessional STT-based capital gains tax regime at the time of ultimate disposal of the units of the business trust.

STT refers to Securities Transaction Tax, a small tax amount applicable to all transactions in securities markets.

In another benefit, any dividend would be tax exempt in the hands of the business trust and the dividend component of the income distributed by the business trust would also be exempt in the hands of unit holder.

The portfolio SPV distributing dividend to business trusts, however, will be subject to dividend distribution tax. The interest received by REITs or InvITs from portfolio SPV (Special Purpose Vehicle) would be given a complete tax pass-through, while the portfolio SPV would also be exempted from withholding tax on interest paid to the business trust.

Also, the interest from portfolio SPV would not be taxable in the hands of the business trust.

With regard to capital gains made by the business trust, it would be taxable on any capital gains earned by it on disposal of any assets, depending on whether the gains are short of long term in nature.

However, the capital gains component of the distributed income would be exempt in the hands of the unit holders.

The tax treatment for any transfer of listed units of the business trusts by investors on an exchange would be on the lines of the listed equity — that is long term capital gains on such transfers would be exempt and the short-term capital gains would be taxable at the rate of 15%, provided STT is paid on the transfer of such units.

For any external commercial borrowing by the business trust, a withholding tax of 5% on interest payments to non-resident lenders would be levied.

To make REITs and InvITs more attractive, Sebi has already to incorporate many industry suggestions, including for reduction in the minimum asset size to R500 crore and to allow foreign investors at IPO and later stages.

The final regulations are likely to be considered for approval by the Sebi board this Sunday.

The new norms would enable listing and trading of REITs and InvITs as any other security on stock exchanges and also help create new avenues for raising of funds by real estate and infrastructure companies, respectively.

***Source : The Financial Express***

***Date : 12.08.2014***