



Azure
CAPITAL ADVISORS



Presentation on REIT- Tax Issues
by Azure Capital Advisors Pvt. Ltd.
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Format of Presentation

- Brief introduction of Azure Capital
- Concept of REIT
- REIT-Investment Parameters
- Allocation of REIT Investment
- Types of Income generation by REIT
- Taxation structure under REIT
- Taxation Structure: Sponsor
- Taxation Structure: SPV, REIT and Unit holders
- Taxation Issues / Recommendations

Brief Introduction of Azure Capital

- We are an Investment Management company of Alternate asset class.
- Focused to India's booming Real Estate Sector.
- Incorporated in the year 2009.
- Promoted by Professionals with background of Real Estate, Regulatory environment, Banking and Asset management.
- Currently managing India Realty Fund I (IRF I) a VCF dedicated to RE Sector.

Concept of REIT

- Group of Income producing Assets (Rental Assets) backed by tangible security providing regular yield to Investors
- Like Mutual Funds REITs issue units to the investors which are listed on Stock Exchanges
- REITs can invest in Commercial Real Estate (RE) either directly or through dedicated SPV
- Minimum Asset size of Rs 500 Crs.

REIT- Investment Parameters

- REIT units are listed on Stock Exchange
- REIT invests either in Real Estate Properties directly or through Special Purpose Vehicle (SPV). SPV can be Company OR LLP.
- SPV makes investment only in Real Estate Assets.

REIT- Investment Parameters (Continued)

Investment Regulations under SEBI Guidelines:

- Investment by REIT shall only be in Securities or “Requisite Assets” (other than vacant land or agriculture land) in India.
- REIT can invest in Properties directly in its own name
- REIT can invest in properties through Special purpose Vehicle (SPV), if following conditions are satisfied:-
 - Such SPV hold not less than 90% of their asset directly in Properties
 - The REIT shall hold controlling interest and not less than 50% of equity share capital of SPV

Allocation of REIT Investment

- Commercial Rental Asset to be minimum size of Rs 500 Crs.
- Investment Proportion:-
 - A. Not less than 80% of value of REIT asset shall be invested in completed and revenue generating properties (RA) and balance 10% investment in developmental properties.
 - B. Not more than 10% of value of the REIT asset shall be invested in:-
 - Listed or unlisted Debt of Companies
 - Mortgage backed securities
 - Listed Equity shares of the companies, which derive not less than 75% of their revenue from Real Estate Activities
 - Government Securities
 - Money Market Instruments or Cash Equivalents

Types of Income Generated by REIT

REIT income can be comprised of the following:-

- Rental Income from Direct Investment in Real Estate Properties
- Capital Gains on sale of Real estate properties
- Dividend Income from equity Investment in Special purpose vehicle
- Interest Income from loans advanced to Special purpose vehicle/Other entity.
- Interest/Dividend/Capital Gains from other Investment (10% of REIT assets)

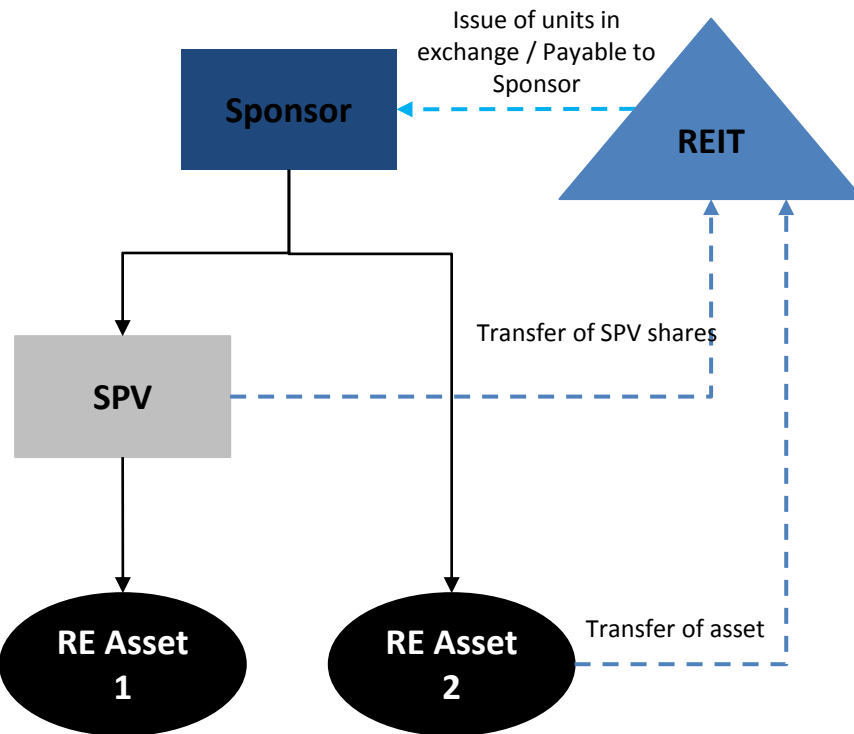
Note: 90% of the net distributable Cash Flow generated by REIT to be distributed to Investors on half yearly basis.

Taxation structure under REIT

The taxation proposal can be categorised at four levels

- Sponsor level
- SPV Level
- REIT(Business Trust) level
- Unit holder Level

Taxation structure : Sponsor



On setting up a REIT

- **(A) Direct Holding** Transfer of Requisite assets in exchange of REIT units
 - Liable to pay Capital gains tax
- **(B) Indirect Holding (SPV)** : Transfer of SPV shares in exchange of REIT units
 - No Capital gains at the transfer stage but applicable on subsequent transfer of REIT units
 - In case Sponsor is company MAT @18.5% would be applicable on its book profits.

(C) Indirect Holding (LLP): Transfer of interest in LLP holding RA in exchange of REIT units

- Liable to pay capital gains tax

Exit from REIT

(A) & (C) - LTCG Exempt subject to STT; STCG - as applicable

(B) LTCG Applicable at 20% / 10%: STCG-as app.

Taxation Structure: SPV, REIT and Unit holders

Entity	Income streams			
	Dividend/ Profit	Interest	Capital Gain	Rental/Other income
SPV	N/A (DDT paid while distribution of Dividend)	N/A	On sale of asset: Tax on capital gains on applicable rates, as per holding period.	Taxable at maximum marginal rate
REIT	No tax on receipt or distribution	Pass through; tax to be withheld by REIT @ : <ul style="list-style-type: none"> ▪ 5% – NR ▪ 10% – R 	On sale of SPV's shares/Capital Assets: Tax on capital gains on applicable rates, as per holding period.	Taxable at maximum marginal rate
Unit-holder	Exempt	Taxable at applicable rates <ul style="list-style-type: none"> ▪ 5% – NR (tax withheld would be available as credit) ▪ At applicable rate– R 	<ul style="list-style-type: none"> ▪ On sale of units: <ul style="list-style-type: none"> • LTCG – Exempt so long STT is paid • STCG – 15% ▪ Holding period for LTCG: 36 months 	Exempt

Taxation Issues/Recommendations

- Differential holding period between REIT units Vs Securities
- Capital gains on transfer of SPV Shares to REIT should not be subjected to MAT
- In order to create similar platform to all kinds of Sponsors, Tax deferral scheme available to a Sponsor of SPV shares should also be extended to other types of transfers (Requisite assets and interest of LLP)
- Stamp duty Issues.

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THANK YOU