

Nachiket Mor Committee Recommends restoring tax free status for securitisation SPVs – is MoF listening?

The Committee on Comprehensive Financial Services for Small Businesses and Low Income Households Report¹ under the Chairmanship of Dr. Nachiket Mor made several recommendations on the financial inclusion and financial deepening in India and how institutional framework and regulations could be developed to achieve the agenda. The Report also made some with regard to Non-banking financial companies (NBFCs) and engaging NBFCs as well in meeting the objectives of financial inclusion.

Interestingly the committee has also recommended that RBI must represent to MoF to restore the tax-free status of securitisation SPVs as pass-through vehicles as it would enable efficient risk transmission. Taxation on securitisation SPVs has been a much debated issue for the last couple of years. From the revenue contesting that securitisation transaction are tax leakages to the industry demanding pass-through status to the SPVs to the series of recommendations made by the industry on the significance of securitisation for the banks and financial institutions to the applicability of distribution tax.

Currently distribution tax is applicable on income distributed by securitisation trusts under the newly inserted Chapter XII-EA of the Income Tax Act, 1961². Post the introduction of the distribution tax, the securitisation volumes have been low, the market players are continuing to undertake transactions owing to the priority sector lending requirements, but the volumes have been on a low. The recommendation from the Nachiket Mor Committee surely is in sync with the market sentiments and if adopted will see effective use of this instrument not just for priority sector targets but otherwise as well.

¹ <http://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/CFS070114RFL.pdf>

² Clause 30 of the Finance Bill, 2013 (now Act) inserted a new Chapter XII-EA consisting of new sections 115TA, 115TB and 115TC in the Income Tax Act with regard to special provisions relating to tax on distributed income by securitisation trusts