

July 2014

INDIA LEGAL UPDATE is a journal of Rajani, Singhanian & Partners which offers a legal perspective on the new business climate and opportunities in India in keeping with the existing laws, current happenings and events in Corporate India.

In This Issue

LEGAL SUITE

A Brief Write-up on the Proposed SEBI (Real Estate Investment Trusts) Regulations, 2013 in Light of the Tax Exemptions Proposed in the Finance Bill (02) of 2014

Ashish Parwani, Partner

Rajeev Nair, Senior Associate

Nikhil Lohana, Associate

LEGAL INSIGHT

Time to Show Investors – India Means Business

Sunil Kumar, Partner

LEGAL IMPACT

SEBI Proposes Crowd Funding Norms

Monica Das, Principal Associate

BUDGET 2014

SYNAPSE

Dear Reader,

Welcome to the July 2014 edition of India Legal Update!

There has been a growing demand for Real Estate Investment Trusts (REIT) in India and the recent Budget provides the real estate sector alternative means to raise funds for the various projects. The lead article in this issue endeavours to consolidate the concept of REIT, assess the salient features of the REIT Regulations and analyse tax exemptions provided in the Finance Bill (02) 2014.

Under the Legal Insight section, we have featured an article on the challenges to Foreign Direct Investment in India (FDI) in light of the recent Budget proposal that has liberalised the FDI Policy by raising the current limits to 49 per cent.

Securities market regulator in India, Securities and Exchange Board of India ("SEBI") floated a concept paper on Crowdfunding in India in June, 2014. Through this initiative, SEBI has taken a major step of not only providing new options to raise funds for the newly set up enterprises but also to regulate and monitor the source, flow and operation of funds so raised.

I hope you will find this issue to be informative and useful.

Look forward to your suggestions and feedback at info@rsplaw.in

Best Regards,



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Managing Partner
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Legal Suite

A BRIEF WRITE-UP ON THE PROPOSED SEBI (REAL ESTATE INVESTMENT TRUSTS) REGULATIONS, 2013 IN LIGHT OF THE TAX EXEMPTIONS PROPOSED IN THE FINANCE BILL (02) OF 2014

Introduction

The Real Estate Development sector in India is mostly fragmented and without any sectoral regulator/ governing body, save and except the wide matrix of laws, both at the state as well as at the national level. Due to complexity of laws, bureaucratic rigmarole, delays in statutory approvals thereby delaying the projects etc all make it a bit difficult for Real Estate developers in India to raise funds for the projects.

Acknowledging the longstanding requirements of the real estate sector in India, Securities and Exchange Board of India (**SEBI**) had first introduced the concept of Real Estate Investments Trusts (**REITs**) in the form of 'Real Estate Mutual Fund Schemes' by way of an amendment to SEBI (Mutual Funds) Regulations, 1996 in the year 2008. In October 2013, SEBI had issued draft regulations for REITs viz. SEBI (Real Estate Investment Trusts) Regulations, 2013 (**REIT Regulations**), by way of a consultative paper with a view to seek comments from the public and other stakeholders.

Until now, SEBI had deferred the introduction of the REIT Regulations essentially due to the uncertainty of tax implications on the income of REITs. However, the Finance Bill (02) 2014 (as introduced in the Lok Sabha) provides the much needed clarity on the tax implications on the income of REITs by granting pass-through status to REITs.

This Note endeavors to consolidate the concept of REIT, salient features of the REIT Regulations and tax exemptions provided in the Finance Bill (02) 2014.

Concept and Meaning

A REIT is an entity that owns, in most cases operates, income-generating real estate. The REIT structure was designed to

provide a real estate investment structure similar to the structure mutual funds provide for investment in stocks.

In many parts of the world, REIT can be publicly or privately held. But in India, SEBI has proposed mandatory listing of units to be issued by REIT. It is also a popular investment option for long term pools of capital viz. pension funds and insurance companies. Moreover, the listed REITs provide the cushion of liquidity to its investors.

Registration and Structure of REITs

The REIT Regulations require the registration of REITs with the SEBI, in a manner and by payment of such fees as prescribed under the REIT Regulations, before carrying out any activity.

The REITs shall be set up as a Trust as per the provisions of the Indian Trusts Act, 1882 and shall have trustee (*to be registered with SEBI*), sponsor, manager and principal valuer as its parties.

Major Parties involved in the REIT Ecosystem

The **Trustee** shall be independent of sponsor and manager and hold the assets of the REIT in the name of the REIT which would be for the benefit of the investors of the REIT in accordance with the provisions of the Trust Deed as well as the REIT Regulations. The role of Trustee is essentially a supervisory in nature.

The **Manager** shall primarily assume all the operational responsibilities with respect to the activity of the REIT. Roles and responsibilities of the manager shall be specified in the agreement entered into between the trustee and the manager.

The **Sponsor** shall be responsible for setting up of the REIT including, appointment of the Trustee. The sponsor shall also be

obligated to maintain a certain percentage holding in the REIT so that the Sponsor is also exposed to the same amount of risks to which the investors have to face by virtue of their investments in the REIT.

Principal Valuer shall be appointed in the annual meeting of the unit holders and shall be changed not less than every 2 years and new principal valuers shall be appointed.

Manner of raising funds and listing of Units of REITS

As per the REIT Regulations, the REITs shall be required to initially raise funds through an initial offer and subsequently through a follow-on offer. Thus, the REIT cannot raise funds by way of private placement through preferential issue.

No offer of units of REIT shall be made, unless a detailed initial offer/follow-on offer document is filed with the designated Stock Exchange within the time frame and in the manner as set out in REIT Regulations.

It is mandatory for all REITs to list all its units on the recognized stock exchange(s) within 15 days from the date of closure of the offer. The procedure for listing (including, requirement of minimum subscription amount and minimum number of subscribers) as well as the delisting of units of the REIT is more particularly set out under the REIT Regulations.

For initial offer, the asset size under REITs should not be less than Rs.1000 crores (Rs.10 billion) and the minimum initial offer size and minimum public float of Rs.250 crores (Rs.2.5 billion) and of 25% respectively has been specified by the regulations in order to ensure adequate public participation and float in the units. Further, minimum subscription size for each investor shall be Rs.2 lakhs (Rs.200,000) and unit size shall be Rs.1 lakh (Rs.100,000).

The funds may be raised by REITs from resident or foreign investor. In case of foreign investors, such foreign investment shall be subject to guidelines as may be specified by RBI and the Government of India from time to time.

Investment conditions and Dividend Policy

Taking into consideration the nature of REITs to invest primarily in completed revenue generating properties, the REIT Regulations has imposed certain conditions, some of them being as follows:

- at least 90% of the value of the REITs assets shall be invested in completed revenue generating properties and the remaining 10% can be invested in other assets as specified under the REIT Regulations;
- distribute at least 90% of the net distributable income (after tax) to the investors;
- invest in the properties, either directly or through a special purpose vehicle (SPV), controlled by the REIT;
- invest only in assets based in India and investment should not be in vacant land or agricultural land or mortgages, other than mortgage backed securities.

Pass through status in Union Budget 2014

The Finance Bill (02), 2014 has introduced the concept of "business trust" which comprises trust registered as an Infrastructure Investment Trust or a Real Estate Investment Trust, the units of which are required to be listed on a recognised stock exchange, in accordance with the regulations made under the Securities Exchange Board of India Act, 1992 and notified by the Central Government in this behalf.

Interest income will not be liable to tax in the hands of the REIT. Further TDS is not required to be deducted by SPV while paying interest to the REIT. However, REIT is required to deduct TDS along with surcharge and cess while distributing interest income to the resident and non resident unit holders.

Dividend income earned by the REIT from SPVs as well as distribution of distribution income to unit holders by REIT is exempt from tax. The provisions of dividend distribution tax shall be applicable to the SPV.

Capital Gains earned by REIT shall be taxable as per normal provisions of capital gains. Exemption for unit holders for long term capital gains in relation to the sale of units on recognised stock exchange and the short term capital gains will be taxed @15% in addition to applicable surcharge/cess.

In case of other income earned by REIT, the same shall be taxable @33.99%.

Our View

There has been a continuous demand for REIT and now with the clarity in the Budget, it provides the real estate sector alternative means to raise funds for the various projects. It will be interesting to see the categories of non resident investors that may be eligible for such investment and terms and conditions that may be issued by the RBI for investing in units of REITs (which is in the form of trust) especially, in current scenario, where Foreign Direct Investment in Trust, other than FVCI investment in registered VCF, is not permitted.

The draft Regulations provide that 90% of the value of the REITs assets shall be invested in completed revenue generating properties (which has received Certificate of Occupancy from competent authority). Thus, cost of acquisition of the REIT of such completed projects will be very high.

The announcement of pass through status in the recent Budget should only open lot of opportunities for REITs as the proposed REIT Regulations would provide much needed transparency and is expected to make real estate a bit 'organised' to say the least. So it looks like that the momentum started by SEBI has eventually received the much needed support from the taxation perspective. It will be just a matter of time when SEBI and RBI will notify necessary regulations to open the gate for investment in REIT.

Legal Insight



Sunil Kumar
Partner

TIME TO SHOW INVESTORS – INDIA MEANS BUSINESS

Economic Rationale of FDI

Foreign Direct Investment (FDI) to India has been regarded as an important component of capital flows to supplement investible resources, to access advanced technologies for importing production know-how and for promoting exports. Being the more stable component of capital flows compared to Foreign Institutional Investor/portfolio investment and external commercial borrowings, it is admittedly the preferred means to finance the current account deficit. To achieve eight percent growth India must generate FDI rather than FII. In actual fact India attracted USD Twenty eight billion FDI in 2013 against USD Twenty four billion in 2012 shows a report of United Nations Conference on Trade and Development. Its position, as per the World Investment Report, 2014 slipped to fourth from second as the most attractive FDI destination after China in 2008–2010.

Factors that made India attractive not long back

Even as recently as last year, The United Nations Conference on Trade and Development (UNCTAD) in its World Investment Report 2013 had published the finding that India was one of the most attractive investment destinations as it had one of the largest markets even though growth had slowed down to 5% per annum. It had a pool of talented manpower and favourable demographics. An expanding middle class with rising urban and rural incomes were a key factor in attracting foreign investment. The services sector was likely to grow along with new sectors like aviation, defence and insurance. Even flows to the manufacturing sector were expected to increase as a number of countries including Japan and Korea were set to establish industry specific industrial zones in the Delhi-Mumbai Industrial Corridor. A major part of the FDI inflow has gone into telecommunication, automotive, construction and computer software and hardware sectors. A 2014 World Bank study ranks India as the World's third largest economy in terms of its GDP after USA and China. State wide FDI flows into Maharashtra, Delhi, Karnataka, Gujarat and Tamil Nadu accounted for more than 75 percent of the aggregate inflows during 2000 - 12. These States offered better infrastructural facilities and favourable business environment and an aggressive Government strategy to woo foreign investors. These States acted as enclaves to exert a disproportionate pull compared to the rest of India to secure FDI despite troubles in the world economy and the global slowdown.

Factors adversely impacting FDI

However, despite all its well-known advantages, why have foreign investors suddenly turned wary of investing in India? A Business Chambers' review confirms the slow-down of inflows - its study of factors across major EMEs indicates that the recent investment

climate in India has become increasingly difficult and perhaps is beginning to depress investor sentiment. Many of the Latin American and Asian countries saw a rebound in 2010, but due to a growing negative perception, FDI flows to India, which had reduced during 2009, continued to be modest during 2010 and 2012-13. Several factors have recently had a huge negative impact on the flow of FDI and the more significant ones are discussed below.

Delay in Implementation of Projects & Environmental Clearances

To the extent implementation of a project is delayed, it adds to its cost and competitiveness and may even make it economically unviable. Anecdotal evidence suggests that procedural delays affect the cross border flows of investible funds. Infrastructure projects in India carry significant risks associated with meeting government regulation, environment norms and legal requirements; inadequate user charges; and execution and construction risks. Industry surveys suggest that environment clearances, land acquisition and rehabilitation are the key issues that delayed large investment projects in the steel industry.

Bureaucratic hurdles

The time consuming systems and procedures to be complied with, the bureaucratic layers to be dealt with and the multiple bodies from which clearances are to be obtained - all add up substantially to the transaction costs involved and take up a lot of management time thus making it an issue of serious concern for the investors.

Solution: There is a report by reputed Indian Economists on Putting India Back on Track. The measures suggested to simplify and reduce the regulations which stifle entrepreneurship must be seriously implemented within a time frame of two years.

Retrospective Tax Amendments

The Vodafone related amendment to the Income Tax Act in 2012 has done a huge damage to India's prospects for foreign investment. MNCs and investors have publicly declared that this one move alone has dealt a severe blow to the credibility of India as a country of predictable and stable policies.

Solution: The government must send out a strong and credible message that Retrospective Amendments will be repealed to restore the Supreme Court ruling in the Vodafone case and such amendments will be avoided in future. This alone will restore the faith of business and the investor community in the policy environment and tax regime of India.

Tax Disputes and outrageous demands

Litigation in tax cases involves astronomical sums in both direct and indirect taxes. As on June 2013 rupees 4.82 lakh crores are locked up in direct tax disputes and Rupee 1 lakh crore indirect tax disputes. The number of disputes pending before Commissioner Appeals, ITAT/CESTAT, HC's and SC are staggering. Both Indirect Tax and Direct Tax Departments go in

appeal to HC's and SC for cases of Rupees 10 Lakhs and 25 Lakhs respectively. In transfer pricing cases alone tax demands involve Rupees Sixty thousand crores on adjusted income amounting to Rupees Two lakh crores to the income of the India entity of foreign companies.

Solution: Two things need to be done to cut down the volume of disputes. First the generation of demands must be curbed by getting CAG / Audit on board to settle paras in the Commissionerates. Secondly, after a critical analysis and review of the present level / volume, the demands must be cut down by a commission of three officers.

Corruption and Difficulty of doing business in India

According to the World Bank report India ranks 132 out of 185 countries in "Ease of Doing Business". This is one area that strangles businesses and acts as a major impediment to establishing start-ups, and is crying for reform of rules and regulations. To add to this is the rampant and all pervasive corruption in government departments which also adds to the cost of doing business in India.

Solution: It is no secret that the revenue department is in need of a drastic overhaul to restore integrity and impartiality as also the confidence to decide without fear or favour among its officers. The administrative measures to reform the ills of India's tax department are highlighted in Dr Parthasarathi Shome's Report on Tax Administration Reform Commission. The government already has a ready made set of recommendations on the table which need to be implemented as soon as possible. Implementation is the need of the hour.

Open up the FDI Policy & Implement Fast

The recent Budget has liberalised the FDI Policy by raising the current limits in the remaining sectors like Urban Construction, Insurance, Defence & even E-Commerce. The ceilings have been raised to 49% to begin with. All that India needs is to ensure that the raising of the current limits on foreign investment is done in a calibrated manner in these sectors and that transfer of technology in defence production is secured through Government of India's understanding with foreign governments which control and regulate the issue of defence technology. The policy on multi brand retail may be kept in abeyance till such time as the economy revives and industrial growth generates employment. Perhaps the domestic retail sector still needs time to organise itself to meet foreign competition. Once India is back on the path of growth and jobs in the manufacturing sector begin to raise income levels and the SME sectors becomes stronger, may be the country will be ready to look more positively at the multi brand retail issue. To conclude, it is implementation alone that will revive the economy whether through FDI or through the domestic investment cycle and the solutions highlighted in this note will gradually encourage foreign investors. Currently, investors are poised on the threshold on the basis of expectations. Hopefully, market expectations will be buoyed up with Budget announcement on July 10, 2014.

SEBI PROPOSES CROWDFUNDING NORMS

Legal Impact



Monika Das
Principal Associate

Securities market regulator in India, Securities and Exchange Board of India (“SEBI”) floated a concept paper on Crowdfunding in India in June, 2014, discussing inter alia, the concept, purpose, legal and regulatory aspects and implementation issues in crowdfunding. The paper discusses the proposal to introduce the framework for aiding access to crowdfunding as an additional avenue for funding of start-ups and SMEs by providing access to the capital market and regulation thereof. As opposed to the historical methods of start-ups funding through private equity, angel investments and loans which are generally available after the business is somewhat settled in terms of commercial viability, crowdfunding aims at raising funds at a nascent stage of a business. Currently, the area of crowdfunding is not monitored or regulated through any particular law, for which SEBI through this concept paper has taken a step to forward in view of not only providing for new options for raising funds by newly set up business but also to regulate and monitor the source, flow and operation of funds so raised.

The Concept

Crowdfunding refers to raising funds, generally small amounts, by solicitation from multiple investors. The funds are raised through web based platforms, social networking sites etc., for specific projects, social cause or business ventures. IOSCO (International Organisation of Securities Commissions) Staff Working Paper – Crowdfunding: An infant Industry Growing Fast, 2014, on which the concept paper appears to have relied quite a bit, categorises crowdfunding into four categories:

- Donation crowdfunding: Raising funds for social, charitable, artistic or similar purpose and does not involve any returns to the investors.
- Reward crowdfunding: Investors receive some existing or future tangible reward in return.
- Peer-to-peer lending: Involves matching of borrowers with the investors
- Equity crowdfunding: Involves issuance of equity shares to the investors in consideration for funds solicited from them.

Existing Regulatory Framework

Currently, the mechanism of raising funds by the companies are governed under the Companies Act, 2013, SEBI Act, 1992, Securities Contracts (Regulation) Act, 1956 (“SCRA”) and the Depositories Act, 1996 and various related regulations. The Companies Act, 2013 provides that the issue and transfer of securities by listed companies or by the companies which intend to get its securities listed shall be governed by SEBI and accordingly the public issuance of securities and private placements proposed to be listed on the stock exchanges are regulated by SEBI. Public issues of specified securities are required to comply with the requirements of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (“ICDR”), while issuance of debt securities require compliance with the SEBI (Issue and Listing of Debt Securities) Regulations, 2008 (“ILDS”). Recently, under the Companies Act, 2013 and relevant Rules thereunder, have put certain restrictions on private placements which was earlier feebly regulated, to prevent the misuse of the liberal regulations.

Coming to facilitating the funding of the start-ups and SMEs, SEBI has taken various measures through devising certain routes of funding such as SME Segment of Exchanges, Institutional Trading Platform (ITP), Category-I SME Fund under AIF Regulations.

SMEs can list their securities in the SME Segment of the recognized stock exchanges and such SMEs have been provided various relaxations under the ICDR such as filing of offer document directly with the stock exchange and not necessarily with the SEBI, relaxation in the eligibility criteria and minimum number of prospective allottees etc. The relaxations are also provided for such SMEs with respect to continuous listing requirements for companies listed in SMEs.

SMEs including the start-up companies are permitted to be listed on the SME Exchange ITP without the requirement of making an initial public offer. The objective of the ITPs is to provide initial impetus to the SMEs rather than sustained listing over a long term horizon.

SEBI (Alternative Investment Funds) Regulations, 2012 (“AIF Regulations”) were notified by SEBI in May, 2012 with an objective to facilitate increase in investments in new start-ups, SMEs etc. and to provide for a mechanism to monitor and assess risks to the market stability. The purpose of the AIFs Regulations was to regulate the unregulated funds with a view to increase systemic stability, market efficiency along with encouraging raising of new capital with apt consumer protection. The AIF Regulations include within its purview all the alternative investment funds including private equity funds, real estate funds, hedge funds etc.

The Proposal

Since Donation Based, Reward Based and Peer-to-Peer crowdfunding do not generally involve issuance of securities for a financial return, it would not be subject to regulation by the SEBI. The proposal seeks to explore the options of a regulated security based crowdfunding through a web-based platform, within the existing legal frame work in India, as discussed earlier. The options being considered are:

- (i) Equity based Crowdfunding (“EbC”);
- (ii) Debt based Crowdfunding (“DbC”); and
- (iii) Fund based crowdfunding (“FbC”)

While EbC and DbC are primarily based on the private placement route as provided under section 42 of the Companies Act, 2013, FbC is based on the AIF Regulations.

EbC would enable the issuers to raise funds online, up to INR 100 million by issuing equity shares to the accredited investors. A single investor would not be allowed to hold more than 25% stake in a company and the promoters shall be required to maintain an equity stake of minimum 5% for at least 3 years. The investors would have the rights of an equity shareholder as provided under the Companies Act, 1956.

Similarly, DbC would enable the issuers to raise funds online, up to INR 100 million by issuing debentures or debt securities to the accredited investors. The debt securities should comply with the requirements of the Companies Act, 2014. A debenture trustee would be required to be appointed by the investor and a Debenture Redemption Reserve of 25% of the value of the debentures would be required to be created. The investors would have the rights of debenture holders as provided under the Companies Act, 1956.

For the FbC, the funds of the accredited investors will be collected online and pooled under the AIF to invest in shares or debt securities in crowd funded ventures which are displayed on a recognized crowdfunding platform.

Eligible investors:

The Proposal seeks to permit only the “Accredited Investors” to participate in the crowdfunding as of now. Accredited Investors would include the Qualified Institutional Buyers (QIBs) as defined in the ICDR, companies with a minimum net worth of Rs. 200 million, High Net Worth Individuals (HNIs) with a minimum net worth Rs. 20 millions or more (excluding the value of the primary residence or any loan secured on such property), Eligible Retail Investors (ERIs), as specifically defined under the concept paper. The idea behind restricting the eligible investors for crowd funding is to have only those investors involved in the crowdfunding who have the requisite market knowledge and experience, access to the investment advice and have sufficient resources to bear any losses on their investments, considering the risks involved in the start-up business owing to the speculative nature of such businesses at an early stage.

Conditions, limits and disclosures:

It is proposed that EbC and DbC would allow private placement offers through net-based crowdfunding platforms to any number of QIBs and a maximum of 200 HNIs and ERIs collectively, in view of the provisions of Companies (Prospectus and Allotment of Securities) Rules, 2014 which prohibits private placement offers to more than 200 investors in a financial year excluding the QIBs and employees of the concerned company. Holding of minimum of 5% of the securities issued by the QIBs collectively is proposed. A HNI would be required to purchase at least 3 times the minimum offer value per person and an ERI would be required to purchase at least the minimum offer value per person and the limit of investment of an ERI in an issue is proposed to be capped at Rs. 60,000. Further, total crowdfunding investment of an ERI in a year would be capped at 10% of its net worth.

The Accredited Investors intending to invest through crowdfunding mechanism would need to maintain a demat account, as the issue would be required to be in demat form. The payments would be required to be made through normal banking channels.

The issuers would be required to make adequate disclosures, though not as exhaustive and extensive as IPOs. It is proposed that an intending issuer would be required to submit a Private Placement Offer letter to the crowdfunding platform with the requisite information about the issuer, which would be circulated to the selected registered accredited investors. Besides initial disclosures, the issuer would be required to make ongoing disclosures regarding the financial information and the state of business of the business.

Eligible issuers:

The option of raising funds through EbC and DbC routes is proposed to be restricted to an early stage SME or start-up which is an unlisted public company incorporated in India which is not older than 48 months. Additional conditions include that the company should not be intending to raise a capital of more than INR 100 million in a period of 12 months, it should not be promoted, sponsored or related to an industrial group which has turnover exceeding INR 250 million or has an established business. Further, the said company should restrict its business to non-financing ventures and not be engaged in real estate activities and activities not permitted under India's industrial policy. Furthermore, the company, its directors, officers, associates etc. should not have been prohibited from operating in capital market or have any adverse directions from SEBI regarding dealing in securities, should not have been categorized as a defaulter by RBI or CIBIL and its directors and promoters should not be disqualified under the provisions of the Companies Act, 2013. The investee company would not be allowed to use multiple crowdfunding platforms in a given period of 12 months, crowdfunding issues would be required to be routed only through SEBI recognized platform and the investees would be required provisions for oversubscription which may include maximum oversubscription amount to be retained and should not exceed 25% of the actual issue size.

The Crowdfunding Platform:

It is proposed that the online platform to be used for crowdfunding should be a SEBI recognized platform. Three (3) classes of crowdfunding platforms are proposed: (i) Class I - Recognised stock exchanges (RSEs) and SEBI registered Depositories; (ii) Class II - Technology Based Incubators promoted by the Central Government or any State Government fulfilling certain conditions as specified under the paper. A joint venture of Class I and Class II entities would also be eligible to set up a crowdfunding platform; and (iii) Class III - Associations and networks of PE or Angel Investors which specify certain conditions.

It has also been proposed to enable FbC, that the new class of Crowd Fund AIFs be displayed on the platforms launched by RSEs and depositories.

The crowdfunding platforms would be obliged to conduct screening and basic due diligence of the issuers and investors and a specific "screening committee" has been proposed to be set up.

Conclusion

Crowdfunding comes forth as a welcome step to enable the small enterprises and new businesses to raise funds. With the increasing levels of computer literacy and internet access, it is likely to prove as a convenient mode of not only raising funds for the ones who wish to start up or expand their new business due to relaxation in terms of complex requirements such as issuance of prospectus, listing requirements etc., but also a good option for those who would be interested in making small investments in the business with new ideas. While expecting that the regulations would be in place soon, it can be hoped that the mechanism would provide impetus to the economy of the country. The economy is expected to be benefitted from the idea of raising capital at a lower cost, and increasing healthy competition. However, at the same time the issues and challenges as regards implementation of the idea cannot be ignored owing to the high risk, low liquidity, systemic risks, cyber security issues etc. Therefore, the need would be to balance the facilitation of fund raising with the protection of the investor rights from the risks.

Fiscal Deficit

- * Accepts fiscal deficit target of 4.1 percent of GDP for 2014/15
- * Fiscal deficit seen at 3.6 percent of GDP in 2015/16
- * Tax-to-GDP ratio must be raised

Growth

- * Aims for sustained growth of 7-8 percent in the next 3-4 years
- * Finance Minister says he is bound to usher in policies for higher growth, lower inflation

Revenue and Expenditure

- * Estimates that total expenditure will be 17.95 trillion rupees in 2014/15
- * Revenue deficit seen at 2.9 percent of GDP in 2014/15
- * Capital receipts seen at 739.5 billion rupees in 2014/15
- * Retains tax collection targets and makes no major changes to direct tax rates
- * Allocates 2.29 trillion rupees for defence spending in 2014/15; capital outlay raised by 50 billion rupees over interim budget
- * Earmarks 70.6 billion rupees to create 100 "smart cities"
- * Proposes 50 billion rupees for warehousing capacity; 100 billion rupees of private capital for start-up companies; and 378 billion rupees of investment in national and state highways
- * 40 billion rupees for affordable housing proposed through national housing bank; 80 billion rupees proposed for rural housing scheme

BUDGET 2014

Foreign Direct Investment

- * Raises limit on foreign direct investment in defence sector from 26 percent to 49 percent
- * Raises FDI limit in insurance sector from 26 percent to 49 percent

Taxation

- * Jaitley vows to maintain a stable tax environment but stops short of scrapping rules on retrospective tax
- * All pending cases of retrospective tax for indirect transfers to be examined by committee before action is taken
- * Government will not ordinarily bring any change retrospectively that creates a new liability, Jaitley says
- * Aims to approve goods and services tax by end of this year
- * Extends 5 percent withholding tax on corporate bonds until June 30 2017
- * To provide necessary tax changes to introduce real estate investment trusts and infrastructure investment trusts
- * Extends 10-year tax holiday for power generation companies

Subsidies

- * Plans to make food and petroleum subsidies more targeted
- * Rural job-guarantee scheme, which provides 100 days of paid employment a year, will become more focused on asset creation

Agriculture

- * Will focus on achieving 4 percent growth per year in agriculture
- * Sets farm credit target at 8 trillion rupees for 2014/15
- * Proposes a long-term rural credit fund with an initial corpus of 50 billion rupees

Source: Reuters News Flash

SYNAPSE

Sahara Group appoints Rajani, Singhania & Partners for Legal Assistance

Rajani, Singhania & Partners are conducting due diligence for the Sahara Group with respect to development of Housing in an area of approximately 185 acres land in Gurgaon-Delhi border. Sahara Group is an Indian conglomerate whose areas of business includes finance, infrastructure & housing, media & entertainment, consumer merchandise retail venture, manufacturing and information technology.

**Rajani, Singhania & Partners provide legal services to McCain Foods Limited**

Rajani, Singhania & Partners are legal Counsels to McCain Foods Limited for agri-business law in India. McCain Foods Limited is the world's largest producer of French Fries and Potato Specialities. Located in Florenceville, New Brunswick, Canada, McCain has grown to become a global leader in the frozen food industry.

**Legal Counsel to Bravo Consulting Inc.**

The firm offers legal services to Bravo Consulting Inc. for review and revision of Shareholders Agreement in the light of applicable Indian Laws. Bravo consultants specialize in needs-based technology solutions for organisations worldwide.



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