

TVS Shriram Growth Fund (TSGF)

Regulatory Structure

1. TVS Shriram Growth Fund ('TSGF') **is set up as a determinate trust** and registered under the Indian Trusts Act, 1882.
2. TSGF is considered as a 'determinate trust', as it fulfils following conditions:
 - (i) name of the beneficiaries are specified and
 - (ii) individual share of the beneficiaries are ascertainable
3. TSGF is registered with Securities and Exchange Board of India ('SEBI') as Venture Capital Fund ('VCF') under SEBI (VCF) Regulations, 1996.
4. TSGF is not an "Alternative Investment Fund (AIF)" and will therefore continue to be regulated under SEBI (VCF) Regulations, 1996
5. The Tax guidance given here is applicable for Year ended 31.3.2014 (Asst. Year 2014-15)

Principles of taxation – Applicable for year ended 31.3.2014 (Asst. Year 2014-15)

6. U/s 115U of the Income Tax Act,1961 (Act) the investors will be liable to pay tax on income from the VCF on "accrual" basis whether Fund has distributed the income or not.
7. *TSGF has adopted following principles of tax laws for determining the income to be included by the investors in their tax return for year ended 31.3.2014 (Asst. Year 2014-15).*

#	Nature of income	When it accrues to Investor	To include the income in their return of income even if it is not paid / distributed by the fund	Tax rate applicable
1	Dividend	When dividend is received by the VCF	To include under "Income from Other Sources" and claim exemption u/s 10(34) of the Act	No tax in the hands of Investor.
2	Interest	Accrues on time basis – irrespective of the fact whether interest is actually received or not by VCF	To include under "Income from Other Sources" and pay tax at the applicable rates	Individuals/HUF –Slab rate as applicable AOPs, Trust, Firm & Companies 30% + Surcharge + Cess
3	Capital Gain	Accrues on sale of shares invested in portfolio companies by TSGF If the Units of VCF are held as investments – no need to accrue on Mark to Market (MTM) basis as per NAV advised by TSGF.	To include under "Capital Gains" – either (a) Long term or (b) Short term No need to include in the Return of Income	Long term – Listed If the exit is through IPO or sale of shares through Stock Exchange – No tax and capital gain is exempt from tax Long term - Unlisted _@ 20% + SC + Cess Short term - Listed If the exit is through IPO or sale of shares through Stock Exchange – 15% + SC + Cess Short term - Unlisted _@ 30% + SC + Cess

FAQ & Guidance on treatment of income received from VCU for Tax purposes in the return of income filed by the Investors

1. What is Income accrued to TSGF and why it is segregated as Income from VCU and Income from Non-VCU

Following income has accrued to TSGF during the FY 2013-14,

- a) Dividend & Interest from investments made by TSGF in VCUs.
- b) Interest from Fixed deposits with Banks

Interest from Fixed Deposits are considered as income from Non-VCU as it is not directly related to Venture Capital activities.

2. Who should pay tax on income from VCU and why TSGF itself cannot pay tax on behalf of the investors?

2.1 TSGF enjoys pass through status under Section 10(23FB) of Income Tax Act, 1961 (Act). Therefore the income from VCU is exempt in the hands of TSGF. However the said income is directly taxable in the hands of investor u/s 115U of the Act.

2.2 Interest on Fixed deposits which is a non-VCU income may be taxed in the hands of trustee of VCF as representative assessee in like manner and to the same extent as applicable to the respective beneficiaries and recovered from the beneficiaries.

2.3 This will lead to practical difficulties in tax assessment – part of the income taxed at investor level and balance taxed at Trust (TSGF) level.

2.4 TSGF is consistently following the following stand from the date of its inception. Entire income (both VCU and non-VCU) will be offered to tax only by the investors in their return of income and therefore there will not be any tax at trust level.

2.5 As per the Contribution agreement, the beneficiaries have to pay tax on total income of TSGF (both VCU and non-VCU) - Hence income & expenditure from both VCU and Non-VCU investments have to be included in the Return of income of each beneficiary and tax there on will be discharged by them.

2.6 Income from VCU is taxable u/s 115U of the Act and FD interest income (Non-VCU income) is taxable in the hands of beneficiaries u/s 160-164 of the Act.

3. Why 2 statements are issued indicating the income to be included by the investors and why not a consolidated statement issued?

3.1 U/s Section 115U of the Act read with Rule 12C, TSGF has to furnish details of share of income of each beneficiaries in the prescribed Form 64.

3.2 Form 64 provides for reporting income from VCU only (i.e. Dividend, Interest, STCG / LTCG, if any,). Accordingly, income from VCU is only reported in Form 64.

3.3 Income from FD, being Non VCU income cannot be disclosed in Form 64. Hence a separate statement is given to the investors to include the same in their respective return of income along with income from VCU.

4 What tax treatment to be adopted by the Investors in respect of income from VCU and income from non-VCU in their return of income

4.1 The share of income of each beneficiary (both VCU and Non-VCU) shall be offered to tax by the respective beneficiaries in their respective return of income in the same and like manner. (ie.) Dividend, Interest etc.) as "income from other sources"

5 A separate statement indicating share of fund expenses is received. What does it convey?

5.1 TSGF has incurred following "Fund expenses" during FY 2013-14

- a) Management fees
- b) Distribution fees and
- c) Administrative expenses

5.2 TSGF has apportioned the aforesaid Fund expenses to each investor according to their share of beneficial interest.

5.3 Accordingly separate statement of expenses is given – segregating the expenses between Income from VCU and Non-VCU.

6 Whether the above expenditure can be adjusted against the income of VCU and non-VCU while computing the tax payable for the year?

6.1 Section 57(iii) of the Act allows deduction against "Income from other sources" only to those expenses which are not capital in nature and which have been incurred wholly and exclusively for the purpose of earning such income.

6.2 As per Tax advisors of TSGF, it may be difficult to substantiate / demonstrate that management fees, distribution fees and administrative fees have been incurred wholly and exclusively for the purpose for earning the Dividend / Interest income.

6.3 Therefore the allowability of afore-mentioned expenses in the hands of beneficiaries and claiming the same in their respective return of income as deduction shall be decided by each beneficiary based on the advice of its respective tax consultant after taking into account other income earned by the investor for the year.

6.4 Where beneficiary (based on the advice of their respective tax consultants) decide to claim afore-mentioned expenses against income distributed from VCF, such expenses would have to be further adjusted for disallowance u/s 14A read with Rule 8D.

6.5 It is possible for Assessing Officers to take different views on the allowability of aforesaid expenses/fees as deduction against the income received from TSGF which needs to be handled by the investor's tax consultants.

7 Why a consolidated statement is not given to the investor by netting the income with the expenditure

- 7.1 As per Section 115U of the Act, Form 64 is prescribed only in respect of income from VCU. Hence separate statements one for Income from Non-VCU and other towards share of expenses apportioned to each Investor is provided.
- 7.2 Further the deductibility of such expenditure against the income from VCU & Non-VCU has to be decided by each investor in consultation with their tax advisors as it will have an impact in the income earned by him from other activities.

8 Since TSGF has not distributed the income, can an Investor offer to tax both income from VCU and non-VCU when it is actually distributed.

- 8.1 Effective 1.4.2012, income from a SEBI registered VCF will be taxable in the hands of investors. Further the investors will be liable to pay tax on income from the VCF on "accrual " basis whether Fund has distributed the income or not.
- 8.2 TSGF is consistently adopting "accrual basis" of accounting based on that investors have been given statement of share of beneficial interest in earlier years also.

9 Can an Investor claim credit for Tax deducted at source in the return of income?

- 9.1 Investments including Fixed Deposits are made in the name of the TSGF on behalf of the investors. Hence the Banks deduct tax at source on the interest paid to the Fund and issue TDS certificate in the name of the Fund.
- 9.2 Since the TDS is credited to NSDL account in the name of TSGF – it is practically difficult for the investors to claim their share of credit of TDS in their return of income.
- 9.3 The Fund files "NIL" tax return every year and claim the TDS as refund due.
- 9.4 The refund will be determined and received by the Fund once the tax assessments of the Fund are completed by the Income Tax Department on yearly basis.
- 9.5 As and when the refund is received from the department the same will be paid to each investor.

10 What communications were sent to the Investors to facilitate compliance by them to Tax authorities?

- 10.1 TSGF send a statement of share of beneficial income to the investors for each financial year requesting them to include the same and offer to tax in their return of income along with other income filed by them for each assessment year and pay appropriate tax wherever required.
- 10.2 Similarly the Fund estimate your share of income / expenses for Advance Tax purposes and send communication to the investors when advance tax is due viz. 15th June, 15th September, 15th December and 15th March every year to enable the Investor to include the same in their advance tax estimate along with other income and pay the required advance tax.
- 10.3 For the Financial Year ended 31.3.2014, following communications have been sent to each investor to enable them to comply with tax regulations.

#	Date of communication	Purpose	Description
1	12/06/2013	Estimation of advance Tax	1 st instalment – applicable for Companies only
2	12/09/2013	Estimation of advance Tax	2 nd instalment – applicable for all
3	11/12/2013	Estimation of advance Tax	3 rd instalment – applicable for all
4	08/03/2014	Estimation of advance Tax	4 th instalment – applicable for all
5	19/07/2014	Income to be included in Tax Return	Filing of Tax return for Asst. Year 2014-15

11. What is the accounting treatment to be followed in respect of income accrued/distributed by VCU.

- 11.1 As far as accounting treatment in the books of accounts, companies are governed by Companies Act, 1956 and also Accounting Standard -1 (AS-1) by which the income has to be accounted on "accrual basis" .
- 11.2 The Fund is 7 year Fund and the net result of income / loss of the investment will be determined only as and when disinvestment of portfolio companies are made and gain distributed to the investors.
- 11.3 For the initial years there is only interest income on Fixed deposits which are made pending investment in portfolio companies. However the management expenses accrue every year towards setting up and managing the fund investments.
- 11.4 Some companies are disclosing the effect of this loss as a contingent liability – in view of the nature of investment
- 11.5 There is no mandatory accounting requirement for entities other than companies.
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