Startups look to Budget for tax neutrality on outbound mergers

ASHLEY COUTINHO
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INDUSTRY PLAYERS ARE looking at appropriate relaxations on outbound mergers — where the merged entity is foreign and does not enjoy the principle of tax neutrality — in the upcoming Budget.

Indian companies cannot directly list overseas, which is why some create a holding company overseas to own Indian businesses. This is referred to as flipping as the ownership structure changes from domestic to foreign. As tech startups look to globalise businesses and raise private and public funds outside India, flipping ownership structures may become commonplace.

"With the relaxation in the new overseas investment regulations, it is likely that many Indian founders may look at creating an offshore holding-cum-operating structure. While the merger of a foreign company with an Indian one is exempt from capital gains tax, the reverse doesn't enjoy the same treatment. Providing tax neutrality to an outbound merger will go a long way in the ability of Indian companies to raise growth capital," said Vaibhav Gupta, partner, Dhruva Advisors.

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- Relaxation in overseas investment norms may prompt more Indian companies to flip ownership structures

- Lack of tax neutrality from capital gains tax, however, makes outbound mergers unattractive
- Experts suggest allowing tax neutrality at least partially to ease raising of capital

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According to Vishwas Panjiar, partner, Nangia Andersen, while outbound mergers have been permitted under regulatory norms, the lack of tax neutrality from capital gains tax in such cases makes them unattractive. "The rationale for not granting tax neutrality is twofold: to discourage outward flow of investment and to levy exit tax on the company/ shareholder," Panjiar said.

Indian entities could not invest in foreign entities ear-