**Syllabus subtopic:**

- Infrastructure: Energy, Ports, Roads, Airports, Railways etc.
- Government Budgeting

**Prelims and Mains focus:** about the move to boost private InviTs and its benefits

**News:** Union budget proposals are set to boost investments in the infrastructure space with tax exemptions for private infrastructure investment trusts (InvITs), which have emerged as an investment route of choice for large institutional investors.

**Background**

- The Income Tax (I-T) Act provides for a taxation regime for business trusts. Definition of a business trust means a trust registered as an InvIT or a REIT under markets regulator Sebi and these units need to be listed on a recognised stock exchange.

- The private unlisted InvIT regime was introduced by Sebi in 2019 but did not get the same tax treatment as the listed ones.

- Against this backdrop, the Finance Bill 2020 said representations have been received stating that private unlisted InvITs should be given the same status as public listed InvITs with regards to tax treatments provided under the Act.

**What did the budget propose?**

- The budget has now accorded tax pass through status to private unlisted InvITs, which were till now available only to publicly listed InvITs or those InvITs that were sold to a small group of investors and subsequently listed on exchanges.

- **Clause(13A) of Section 2 of the IT Act** defines “business trust” to mean a
trust registered as an Infrastructure Investment Trust under the Securities Exchange Board of India (Infrastructure Investment Trusts) Regulation, 2014 or a Real Estate Investment Trust under the Securities Exchange Board of India (Real Estate Investment Trusts) Regulation, 2014 made under the Securities and Exchange Board of India Act, 1992, whose units are required to be listed on a recognized stock exchange in accordance with the aforesaid regulations.

- It is proposed to amend clause (13A) of Section 2 of the IT Act so as to omit the long line relating to the requirement of listing of the business trust from recognised stock exchange in accordance with the regulations made by the Securities Exchange Board of India.

- This amendment will take effect from April 1, 2021 and will, accordingly, apply in relation to the assessment year 2021-22 and subsequent assessment years

Benefits to the move

- The private InvIT structure, now with the tax pass through, will not just be attractive to investors but also for the sponsors who are looking to divest their infrastructure assets.

- Even for a sponsor, this is a good move, because when you transfer the assets to a listed InvIT, you get a tax deferral, which was not available in the private InvIT structure. This is just a transfer of assets, they are not being sold, so to pay tax on such a transfer was an issue for sponsors.

- It is expected to see a lot of demand in the next 3-6 months. Even those who were looking at listed InvITs might end up going down the private path. It’s a good structure and a win-win for both investors and sponsors.

- The private InvIT will become an attractive structure for large investors such as pensions and sovereigns.
About Infrastructure Investment Trusts (InvITs)

- **Infrastructure and real estate** are the **two most critical sectors** in any developing economy. A well-developed infrastructural set-up propels the overall development of a country. It also facilitates a steady inflow of private and foreign investments, and thereby augments the capital base available for the growth of key sectors in an economy, as well as its own growth, in a sustained manner.

- Given the importance of these two sectors in the country, and the paucity of public funds available to stimulate their growth, it is imperative that additional channels of financing are put in place.

- An Infrastructure Investment Trust (InvITs) is **Collective Investment Scheme similar to a mutual fund**, which **enables direct investment** of money **from individual and institutional investors** in infrastructure projects to earn a small portion of the income as return.

- The InvIT is **designed as a tiered structure** with Sponsor setting up the InvIT which in turn invests into the eligible infrastructure projects either directly or **via special purpose vehicles (SPVs)**.

- The InvITs are **regulated by the SEBI (Infrastructure Investment Trusts) Regulations, 2014**.