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## Budget 2020: The mergers and acquisitions perspective

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Deal street is abuzz with a series of measures announced by Finance Minister Nirmala Sitharaman in her [Union Budget](#) 2020-21 speech, which are expected to boost foreign investment and spur mergers and acquisitions. Let us take a quick look at a few of them.

### **Abolition of Dividend Distribution Tax**

Since the corporate tax rate cut announced in 2019, India Inc. had been pushing for the elimination of the unpopular dividend distribution tax (DDT). Dividend is the amount that a firm pays its shareholders from the profits it earns. DDT is the tax levied on that dividend.

FM Sitharaman did not disappoint as she answered their prayers. Experts believe that the move will reduce acquisition costs of Indian entities by foreign companies, including private equity players.

“The big step to bring in dividend taxation in line with international practices by the withdrawal of the DDT is a step in the right direction and will be a big boost for foreign investors. Under the DDT regime, foreign investors would not get a tax credit for the DDT against the taxes to be paid in their home country, leading to double taxation. With the proposal to remove DDT, a lower tax rate under the applicable tax treaty can be sought as well as a credit,” Bijal Ajinkya, Partner, Khaitan & Co. said.

Incidentally, the task force on the direct tax code had also recommended the removal of the DDT.

### **Wooring Sovereign Wealth Funds**

In her [Union Budget](#) speech, FM Sitharaman also proposed full tax exemption to interest, dividend and capital gains income on investment made by sovereign wealth funds in the infrastructure sector and other notified sectors. The investments must be made before March 31, 2024 and have a minimum lock-in period of three years, the finance minister added.

“The likes of ADIA (Abu Dhabi Investment Authority) and Singapore’s sovereign wealth fund GIC seem to be the biggest gainers since now even using an special purpose vehicle (SPV) structure, they can claim 100 percent exemption on interest, capital gains or dividend income. For the infra sector, sovereign funds are likely to see accentuated growth with special purpose vehicles being given complete tax exemptions,” Ruchir Sinha, Leader, (M&A and Private Equity) at Nishith Desai Associates said.

“The move should help complete infrastructure projects which have been stuck due to lack of funds, but actually have good economic potential, as these can then

become targets for long term, patient sovereign wealth fund capital,” Sanjeev Krishan, Leader (Deals), PwC India added.

ADIA was a co-investor in the \$1.07 billion fund infusion in GVK Power & Infrastructure Ltd. to increase the latter’s stake in the Mumbai airport. It had also invested \$1 billion in NIIF in 2017. GIC had joined the Tata group and stressed assets investor SSG Capital Management to invest in GMR Airports Ltd. It was also part of the \$3.7 billion deal to invest in Reliance Industries (RIL)’s telecom tower assets along with Canadian investor Brookfield Asset Management.

Sinha also adds that InvITs (infrastructure investment trusts), as a product, will become more attractive after the Budget and there will be more deals as part of this route. “The tax treatment for both listed and unlisted InvITs have now been aligned in the Budget and hence sponsors and investors may not struggle to list the InvITs and grapple with additional compliance,” he explains.

Interestingly, some experts believe status quo may also boost M&A activity. Several market participants were expecting an increase in the foreign direct investment limit in the insurance sector from the existing 49 percent to 74 percent. “Since there has been no indication of an increase in the limit in the current Budget, I believe some of the insurance companies would not be comfortable with status quo and may go for consolidation. For any insurance business, size is an important factor. So some of them may decide to go for strategic alignment to achieve economies of scale,” Sunil Sanghai, Founder and CEO, NovaDhruva Capital Private Limited said.

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