

Union Budget 2012-13: FM removes sector caps on venture fund investments

Nishant Vasudevan, ET Bureau Mar 16, 2012, 03.48PM IST

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MUMBAI: Finance Minister Pranab Mukherjee has proposed the removal of sectoral restriction on [venture capital funds](#), a move that would help domestic funds to avail [tax benefits](#) across sectors. Currently, funds could get tax benefits for investments in specified sectors only.

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As per section 10(23FB) of the Income Tax Act, 1961, venture capital funds registered with market regulator SEBI are eligible to a tax pass-through status to the extent they invest in firms engaged in nine business activities -- nanotechnology, hardware and software development, seed research and development, bio-technology, research and development of new chemicals and medicines, production of bio-fuels, construction of hotel-cum-convention centre with seating capacity of more than 3,000, development and operation of any infrastructure complex, dairy and poultry facilities. These restrictions were introduced by the government four years ago.

"This (removal of sectoral restriction on venture capital funds) is likely to encourage more venture capital investment activity in the country," said [Vikram Shroff](#) of Nishith Desai Associates. Shroff was quick to add that the details of the proposed changes need to be analysed in greater detail to determine the nature of its implications on the domestic venture capital industry.

Private equity players say the move will bring clarity on the taxation front as venture capital funds have structured themselves as a trust, wherein the trust doesn't pay any tax but the beneficiary does. "It will bring clarity and certainty on the taxation front," said Raja Kumar, Founder & CEO of Ascent Capital.