

Tax Hotline

May 31, 2002

INDIAN SOFTWARE COMPANIES CAN RECEIVE EQUITY AGAINST EXPORTS

To strengthen the competitive edge of the Indian software developers, the Reserve Bank of India ("RBI") will now permit them to receive equity upto 25% of the value of their exports to overseas start-up companies. Such equity acquisition would be allowed by RBI without requiring the Indian software developer to enter into a joint venture with the overseas entity.

Equity granted against services rendered by the software developers, law firms, investment bankers *etc.* is termed as sweat equity. It is quite common amongst the US and European start up companies which outsource the software development work to the Indian software developers. Most of these start-ups are cash-strapped.

The above relaxation is the result of the lobbying by the Indian software companies. These relaxations will not only help both the small size and medium size software exporters in India to build long-term relationships and alliances with the overseas companies for mutual advantage, but will also give them a chance to work with cutting edge technologies. These kind of projects have the potential to develop into bigger and profitable projects.

Source: *The Economic Times, May 31, 2002*

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