

REMOVE CURBS ON CHINESE FUNDING UP TO 15%: GOVT PANEL

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Foreign Capital, Foreign Trade & BOP

New Delhi: An eight-member group of ministers (GoM) on [employment generation](#) has recommended that the government could consider removing restrictions on [Chinese investment](#) up to 15% for reviving the gig economy, while maintaining a balance with geopolitical objectives.

Further, for the same purpose, it has suggested that international investors with 50% less than “ultimate Chinese beneficial ownership” could also be granted exemption from prior approval restrictions.

The GoM, which was headed by social justice minister Thaawar Chand Gehlot, has essentially called for a “clarification and modification of Press Note 3” dealing with “opportunistic takeovers/acquisitions of Indian companies”. While Press Note 3 was issued citing the Covid-19 pandemic in April, the matter has since acquired security ramifications owing to India-China military stand-off in Ladakh.

The three key changes have been proposed in final report that was submitted by the group of ministers on October 22.

First, removal of restrictions on Chinese investment in Indian companies if it's less than 15%.

Second, exclude international investors with ultimate Chinese beneficial ownership less than 50% from prior approval requirement under Press Note 3.

Third, exempt investment from Taiwan and Hong Kong if the investing entities certify that they are not majority owned or controlled by People's Republic of China.

The GoM has taken the view that a middle path needs to be found between geopolitical objectives and economic interests.

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Report Under Consideration

“Liberalise the FDI rules, maintaining a balance between geopolitical aims of restricting Chinese takeover of Indian companies and the economic objectives of improving employment through the gig economy,” said the report, citing a study by TechCrunch, a technology startup publisher, that said Chinese investment in Indian startups is to the tune of \$6 billion.

Besides, the GoM report has called for “removal of long-term capital gains tax of 10% for PE/VC funds to attract more capital into gig economy companies”. The group's assessment is that this could attract investment up to 36,000 crore. It has also backed the idea of more tax exemptions where technology transfer is done for the benefit of Indian companies.

Set up in the aftermath of Covid-19 pandemic, GoM has made 63 recommendations across 18 sectors to generate 188 million jobs with an investment of 14.55 lakh crore by the government

and private sector. The report is now under consideration, said sources.

It has proposed setting up of a [National Employment Fund](#) under the cabinet committee on employment and skill development, which will provide a policy framework through a National Employment and Entrepreneur Mission.

Tax Exemptions

The GoM has taken the view that “the government should abolish the inter-ministerial board that acts as a gatekeeper for evaluating a startup’s credibility for tax exemptions under 80 IAC.” At present, only 266 out of 37,799 startups recognised by the Department for Promotion of Industry and Internal Trade (DPIIT) are eligible for tax exemptions. It further recommended “bringing parity between online and offline businesses in terms of mandatory goods and [services tax](#) (GST) registration based on turnover slabs and allow online sellers to avail GST composite schemes to simplify tax returns”.

The group of ministers has also sought to address the issue of tax disadvantages faced by domestic investors. “There is a need to create a conducive environment to mobilise domestic capital towards investment of risk capital. Abolish the current long-term capital gains tax (LTCG) of 20% for equity investments in top DPIIT-recognised startups via collective investment vehicles (CIV). Various developed countries such as US, UK and other EU countries don’t tax capital gains earned by foreign investors,” the report said.

Listing Norms

Further, it calls for a “seamless mechanism of allowing startups registered in India to list in secure and high liquidity stock in international stock exchanges”. In this context, the report has stated: “Do not make listing in India mandatory before startups can list abroad.” On promoting travel and tourism, the panel has said the amount spent for this purpose may be “exempted from the income tax until March 2022 subject to a certain limit”.

The GoM included tourism minister Prahlad Patel, skill development minister Mahendra Nath Pandey, ministers of state for home G Kishan Reddy and external affairs V Muraleedharan, among others.

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