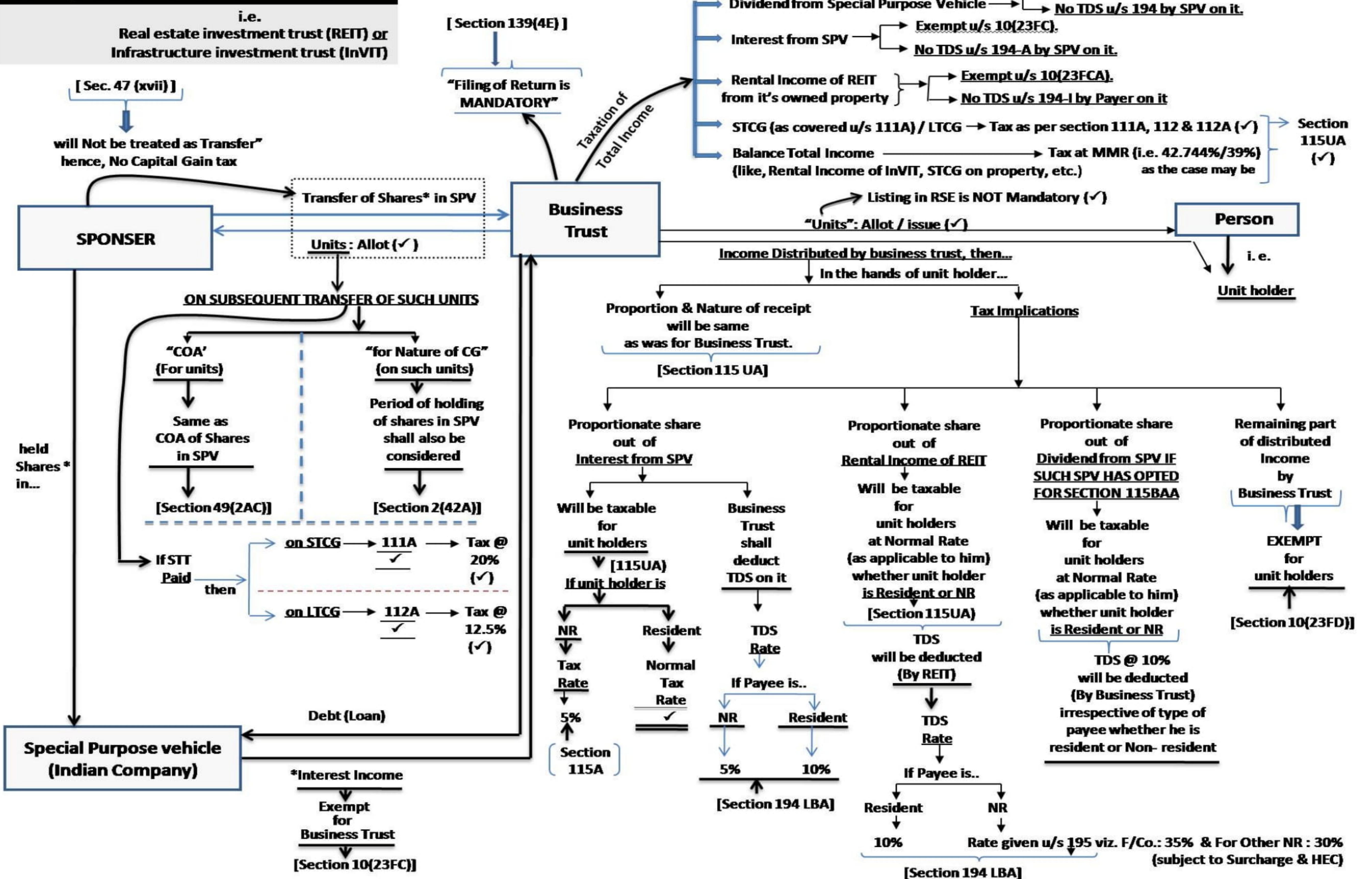


**Tax Implications of BUSINESS TRUST :-**



All Amendments of Finance Act, 2023 have been discussed separately.

**INSERTIONS MADE BY THE FINANCE ACT, 2023:****Taxability on Repayment of debt / Amount paid on Redemption of units to unit holders:****Observation and corresponding amendments:-**

In some cases, business trust makes distribution to unit holders which can be categorized into four categories:

(i) Interest (ii) Dividend (iii) Rental income, and (iv) repayment of debt.

- As discussed earlier, interest, dividend and rental income have been accorded pass-through status at the level of business trust and are taxable in the hands of unit holders. **However, in respect of the distribution made by the business trust to its unit holders (which is shown as repayment of debt), nothing is taxable in the hands of unit holders.**
- To check dual non-taxation of any distribution made by the business trust to unit holders (i.e. which is exempt in the hands of Business trust as well as the unit holder), section 56(2)(xii) has been inserted which provides as follows:

**Section 56(2)(xii): Tax on sum received by a unit holder from a business trust-**

- Any specified sum
- received by a unit holder from a business trust during the previous year
- with respect to unit held by him at any time during the previous year
- would be chargeable to tax in the hands of unit holder under the head “Income from other sources.

**Specified sum = A (-) B (-) C.** If it is negative, it will be taken as zero.

<b>A</b>	<p><u>Any sum received by a unit holder from a business trust except the following—</u></p> <p>(a) Interest and dividend received from SPV and distributed to unit holders</p> <p>(b) Rental income from real estate assets directly owned by it; and</p> <p>(c) Income chargeable to tax in the hands of the business trust u/s 115UA(2)</p> <p>Section 115UA(2) provides that subject to the provisions of sections 111A and 112, the total income of a business trust shall be chargeable to tax at the maximum marginal rate.</p>
<b>B</b>	Amount at which such unit was issued by the business trust (i.e. unit issue price); and
<b>C</b>	Amount taxed under this clause in any earlier previous year;

**Section 115UA (3A): Exception to determination of nature of certain receipt of unit holder from business trust-**

- Any sum received by a unit holder from a business trust which is chargeable to tax u/s 56(2)(xii) in the hands of unit holders under the head “Income from Other Sources” *would not be deemed to be of same nature.*
- Such sum chargeable to tax u/s 56(2)(xii) would include repayment of debt or amount paid against redemption of units to the unit holders.

