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Chartered Accountants
101, Hubtown Solaris, N S Phadke Marg,
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Chartered Accountants
87, Nariman Bhavan,
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IIFL / Optima / 18 / 2024

**STATEMENT OF SPECIAL TAX BENEFITS AVAILABLE TO THE COMPANY, ITS
MATERIAL SUBSIDIARIES AND ITS SHAREHOLDERS UNDER THE APPLICABLE
LAWS IN INDIA**

Date: April 17, 2024

To,
The Board of Directors,
IIFL Finance Limited
IIFL House, Sun Infotech Park,
Road No. 16V, Plot No. B-23,
Thane Industrial Area, Wagle Estate,
Thane – 400 604

Dear Sirs

Sub: Statement of possible special direct and indirect tax benefits available in connection with proposed rights issue of Equity Shares (the "Rights Issue") of IIFL Finance Limited (the "Company"), (the "Statement").

We, Chhajed & Doshi, Chartered Accountants (FRN 101794W) and Sharp & Tannan Associates, Chartered Accountants (FRN 109983W), the joint statutory auditors of the Company, engaged by the Company for the purpose of the Issue have been requested by the Company to certify the possible special direct and indirect tax benefits available to the Company, IIFL Home Finance Limited and IIFL Samasta Finance Limited ("**Material subsidiaries**") and to the shareholders of the Company under the Income-tax Act, 1961 (the "**IT Act**") as amended, for Fiscal 2025 (Interim Budget) relevant to the assessment year Fiscal 2026, presently in force in India and Central Goods and Services Tax Act, 2017, Integrated Goods and Services Tax Act, 2017, State Goods and Services Tax Act as passed by respective State Governments from where the Company and its Material Subsidiaries operates and applicable to the Company and its Material Subsidiaries.

Management's Responsibility

The preparation of the enclosed **Annexure A** is the responsibility of the Management of the Company including the preparation and maintenance of all accounting and other records supporting its contents. This responsibility includes the designing, implementation and maintaining of internal control relevant to the preparation and presentation of the Annexure A and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Responsibility

At your specific request, we, the joint statutory auditors of the Company, have examined the enclosed Annexure A. The contents of the enclosed statement are based on



information, explanations and representations obtained from the Company and on the basis of our understanding of the business activities and operations of the Company.

Pursuant to the SEBI ICDR Regulations and the Companies Act 2013, it is our responsibility to report whether the Statement prepared by the Company, presents, in all material respects, the possible tax benefits available to the Company, its Material Subsidiaries and the shareholders of the Company, under the relevant tax laws as of the date of this certificate.

The benefits discussed in the enclosed Annexure A are not exhaustive. This statement is only intended to provide general information to investors and is neither designed nor intended to be a substitute for professional tax advice. In view of the individual nature of the tax consequences and the changing tax laws, each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the Rights Issue particularly in view of the fact that certain recently enacted legislation may not have a direct legal precedent or may have a different interpretation on the benefits, which an investor can avail. Neither are we suggesting nor are we advising the investor to invest money based on this statement.

The benefits discussed in the Statement are only intended to provide the special tax benefits to the Company, its Material Subsidiaries and the shareholders of the Company in a general and summary manner and does not purport to be a complete analysis or listing of all the provisions or possible tax consequences of the subscription, purchase, ownership or disposal, etc. of the shares. The special tax benefits listed herein are only the possible benefits which may be available under the current tax laws presently in force in India. Several of these benefits are dependent on the Company, its Material Subsidiaries or the shareholders of the Company fulfilling the conditions prescribed under the relevant tax laws, which based on business imperative it faces in the future, it may or may not choose to fulfil.

We do not express any opinion or provide any assurance as to whether:

- i. The Company or its Material Subsidiaries or its shareholders will continue to obtain these benefits in future;
- ii. The conditions prescribed for availing the benefits have been / would be met with; and
- iii. The revenue authorities / courts will concur with the view expressed herein.

We hereby give our consent to include this certificate including the enclosed statement regarding the special tax benefits available to the Company, its Material Subsidiaries and to its shareholders in the Letter of Offer in connection with the proposed Rights Issue of the Company. We hereby consent to be named an "expert" under the Companies Act, 2013, as amended, and our name may be disclosed as an expert to any applicable legal or regulatory authority insofar as may be required, in relation to the statements contained therein. We further confirm that we are not and have not been engaged or interested in the formation or promotion or management of the Company.

We consent to the inclusion (in part or full) of the above information in the letter of offer in relation to the Issue, the abridged Letter of Offer in relation to the Issue or any other Issue-related material (collectively, the "Issue Documents"), and may be relied upon by the Company, the Book Running Lead Managers and the legal advisor in relation to the





Issue. We hereby consent to the submission of this certificate as may be necessary to the SEBI, the relevant registrar of companies, the relevant stock exchanges (the "Stock Exchanges") and any other regulatory authority and/ or for the records to be maintained by the Book Running Lead Managers and in accordance with applicable law.

Thanking you,
Yours faithfully,

Signed by the Joint Statutory Auditors of the Company

**For Chhajed & Doshi
Chartered Accountants
ICAI Firm Reg. No. 101794W
By the hand of**



**M. P. Chhajed
Partner
Membership No. 049357
Place: Mumbai
Date: April 17, 2024
UDIN: 24049357BKCFW8902**

**For Sharp & Tannan Associates
Chartered Accountants
ICAI Firm Reg. No. 109983W
By the hand of**



**Parthiv S. Desai
Partner
Membership No. 042624
Place: Mumbai
Date: April 17, 2024
UDIN: 24042624BKFRSC1842**



ANNEXURE TO THE STATEMENT OF POSSIBLE SPECIAL DIRECT AND INDIRECT TAX BENEFITS AVAILABLE TO THE COMPANY, ITS MATERIAL SUBSIDIARIES AND ITS SHAREHOLDERS UNDER THE APPLICABLE TAX LAWS IN INDIA

LIST OF DIRECT AND INDIRECT TAX LAWS

Sr. No. Details of tax laws ('TAX LAWS')

1. Income-tax Act, 1961 and Income-tax Rules, 1962
2. Central Goods and Services Tax Act, 2017
3. Integrated Goods and Services Tax Act, 2017
4. State Goods and Services Tax Act, 2017

LIST OF MATERIAL SUBSIDIARIES

SR. NO. NAME

- 1 IIFL Home Finance Limited
- 2 IIFL Samasta Finance Limited.

The information provided below sets out the special direct and indirect tax benefits in the hands of the Company, its Material Subsidiaries and its shareholders in a summarized manner only and is not a complete analysis or listing of all potential tax benefits, under the current Income-tax Act, 1961 ("IT Act"), the Central Goods and Services Tax Act, 2017, the Integrated Goods and Services Tax Act, 2017, the Union Territory Goods and Services Tax Act, 2017 and respective State Goods and Services Tax Act, 2017 (collectively, "GST Act") (collectively, "Taxation Laws") presently in force in India.

Several of these special tax benefits are dependent on fulfilling the conditions prescribed under the relevant Taxation Laws. Hence, the ability of the Company and/or its shareholders and/or its Material Subsidiaries to derive the special tax benefits is dependent upon fulfilling such conditions, which, based on business imperatives any of them face, they may or may not choose to fulfil. Further, certain special tax benefits may be optional and it would be at the discretion of the Company or its shareholders or its Material Subsidiaries to exercise the option by fulfilling the conditions prescribed under the relevant Taxation Laws. The following overview is not exhaustive or comprehensive and is not intended to be a substitute for professional advice. Investors are advised to consult their own tax consultant with respect to the tax implications of an investment in the shares particularly in view of the fact that certain recently enacted legislation may not have a direct legal precedent or may have a different interpretation on the special tax benefits, which an investor can avail. The statement below covers only relevant Taxation Laws benefits and does not cover any benefit under any other law.

The Statement has been prepared on the basis that the shares of the Company will be listed on a recognized stock exchange in India and the Company will be issuing shares.

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SPECIAL TAX BENEFITS UNDER THE INCOME TAX ACT, 1961 IN THE HANDS OF THE COMPANY, ITS SHAREHOLDERS AND ITS MATERIAL SUBSIDIARIES:

The provision of the law stated below sets out only the special tax benefits available to the Company and its shareholders and its Material Subsidiaries under the current Income Tax Act, 1961 as amended by the Finance Act, 2024 (Interim Budget) applicable for Fiscal 2025 relevant to the assessment year 2025-26, presently in force in India.

A. Special tax benefits available to the Company & its Material Subsidiaries under the Income Tax Act, 1961 ("IT ACT")

a) Lower corporate tax rate under section 115BAA :-

Section 115BAA was inserted in the IT Act by the Taxation Laws (Amendment) Act, 2019 ("the Amendment Act, 2019") w.e.f. April 1, 2020 (A.Y. 2020-21). Section 115BAA grants an option to a domestic company to be governed by the section from a particular assessment year. If a company opts for section 115BAA, it can pay corporate tax at a reduced rate of 25.17% (22% plus surcharge of 10% and education cess of 4%). Section 115BAA further provides that domestic companies availing the option will not be required to pay Minimum Alternate Tax (MAT) on their 'book profits' under section 115JB of the IT Act.

However, such a company will no longer be eligible to avail specified exemptions/incentives under the IT Act and will also need to comply with the other conditions specified in section 115BAA. Also, if a company opts for section 115BAA, the tax credit (under section 115JAA), if any, which it is entitled to on account of MAT paid in earlier years, will no longer be available. Further, it shall not be allowed to claim set-off of any brought forward loss arising to it on account of additional depreciation and other specified incentives.

The Company and its Material Subsidiaries have opted to apply section 115BAA of the Act.

b) Section 80M-Deduction in respect of Inter Corporate Dividends:-

As per the provisions of section 80M of the Act, a resident corporate shareholder can claim a deduction of an amount equal to dividends received from another domestic company or a foreign company or a business trust. Such deduction shall be claimed from gross total income of the resident corporate shareholder and shall not exceed the amount of dividend distributed by it on or before the due date. The "due date" means the date one month prior to the date for furnishing the return of income under sub-section (1) of section 139 of the Act.

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c) Section 80JJAA - Deduction in respect of employment of new employees

As per the section 80JJAA of the Act, the Company and its Material Subsidiaries are entitled to claim deduction of an amount equal to thirty per cent of additional employee cost (relating to specified category of employees) incurred in the course of business in the previous year, for three assessment years including the assessment year relevant to the previous year in which such employment is provided. The eligibility to claim the deduction is subject to fulfillment of prescribed conditions specified in sub-section (2) of section 80JJAA of the Act.

d) Deduction made towards bad and doubtful debts:

i. Under section 36(1)(viia)

Under section 36(1)(viia) of the Act in respect of any provision made for bad and doubtful debts, The Company and its Material Subsidiaries is entitled to a deduction not exceeding 5% of the total income (computed before making any deductions under this clause and Chapter VIA)

ii. Deduction under section 36(1)(vii)

The subsequent claim of deduction of actual bad debts under section 36(1)(vii) of the Act shall be reduced to the extent of deduction already allowed under section 36(1)(viia) of the Act. As per section 41(4) of the IT Act, where any deduction has been claimed by the Company or its Material Subsidiaries in respect of a bad debt under Section 36(1)(vii) of the IT Act, then any amount subsequently recovered on any such debt is greater than the difference between such debt and the amount so allowed as a deduction under section 36(1)(vii) of the IT Act, the excess shall be deemed to be business income of the year in which it is recovered.

iii. Section 43D - Special provisions for taxability of Interest income from certain prescribed bad debts

Section 43D of the Act provides, inter-alia, for special provision in case of interest income of deposit taking Non-Banking Financial Companies and Systemically Important Non-Deposit taking Non-Banking Financial Companies. Interest income in relation to certain categories of bad or doubtful debts as specified in Rule 6EA of the Income-tax Rules, 1961 ('Rules') received by such NBFCs is chargeable to tax in the previous year in which it is credited to its profit and loss account for that year or in which it is actually received, whichever is earlier.

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B. Special tax benefits available to IIFL Home Finance Limited under IT Act

i. Deduction under section 36(1)(viii) -Transfer to Special Reserve:

IIFL Home Finance Limited is also eligible for a deduction of 20% of the profits from eligible business or an amount transferred to the special reserve, whichever is lower, as per the provisions of section 36(1)(viii) of the Act in computing its income under the head "Profits and gains of Business or Profession" (computed before making any deduction under this section). However, where the aggregate amounts transferred to such special reserve from time to time, exceeds two hundred percent of the paid-up share capital and general reserves, IIFL Home Finance Limited shall not get a deduction for such excess.

C. Special tax benefits available to the shareholders under IT Act:

There are no special tax benefits available to the shareholders of Company for investing in the shares of the Company. However, such shareholders shall be liable to concessional tax rates on certain incomes under the extant provisions of the IT Act.

- a) Dividend income earned by the shareholders would be taxable in their hands at the applicable rates. However, in case of domestic corporate shareholders, deduction under Section 80M of the IT Act would be available on fulfilling the conditions. Further, in case of shareholders who are individuals, Hindu Undivided Family, Association of Persons, Body of Individuals, whether incorporated or not and every artificial juridical person, surcharge would be restricted to 15%, irrespective of the amount of dividend.
- b) As per Section 112A of the IT Act, long-term capital gains arising from transfer of an equity share, or a unit of an equity- oriented fund or a unit of a business trust shall be taxed at 10% (without indexation) of such capital gains subject to fulfilment of prescribed conditions under the IT Act as well as per Notification No. 60/2018/F. No.370142/9/2017-TPL dated 1 October 2018. It is worthwhile to note that tax shall be levied where such capital gains exceed INR 100,000/-.

The benefit of concessional rate of tax under section 112A on long-term capital gains will not be available, where no securities transactions tax is paid. In such cases, under the provisions of section 112 of the Act, taxable long-term capital gains, if any, on sale of listed securities or zero coupon bond would be charged to tax either at the rate of 20% (plus applicable surcharge and education cess), after considering indexation benefits as per second proviso to section 48, or at 10% (plus applicable surcharge and education cess) without indexation benefits. Under section 48 of the Act, the long-term capital gains arising out of sale of capital assets excluding bonds and debentures (except Capital Indexed Bonds issued by the Government and Sovereign Gold Bond issued by the Reserve Bank of India under the Sovereign Gold Bond Scheme, 2015) will be computed after indexing the cost of acquisition/improvement.

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- c) In terms of the provisions of section 111A of the Act, short-term capital gains arising from the transfer of a short-term capital asset, being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust shall be chargeable to tax at the rate of 15% in the hands of the shareholders, provided, the transaction of sale of such equity share or unit is entered on or after the date on which chapter VII of the Finance (No.2) Act, 2004 comes into force and such transaction is chargeable to securities transaction tax under that chapter.

However, if the transaction is undertaken on a recognised stock exchange located in any International Financial Services Centre and where the consideration for such transaction is paid or payable in foreign currency, fulfilment of the condition in respect of securities transaction tax shall not apply.

The short term capital gains not eligible for the concessional rate under section 111A of the Act, are chargeable to tax as per the relevant rate applicable to the shareholder plus applicable surcharge and education cess.

D. To Non-Resident Shareholders

- a. In respect of non-resident shareholders, the tax rates and the consequent taxation shall be further subject to any benefits available under the applicable Double Taxation Avoidance Agreement, if any, between India and the country in which the non-resident has fiscal domicile.
- b. Pursuant to the amendment introduced by the Finance Act 2008, any payment of securities transaction tax in respect of taxable securities transactions which are taxable under the head "profits and gains of business or profession" shall be allowed as deduction under section 36 (1) (xv) of the Act against such income.
- c. A capital gain arising to FIIs or a specified fund on sale of shares is governed by section 115AD of the Income-tax Act. As per section 115AD of the Income-tax Act, long-term capital gains arising on transfer of shares purchased by FIIs upto Rs. 1,00,000/- is exempt and exceeding Rs. 1,00,000/- are taxable at the rate of 10% (plus applicable surcharge, education cess and secondary and higher education cess). As per section 115AD read with section 111A of the Income Tax Act, Short-term capital gains are however, taxable at the rate of 15% (plus applicable surcharge, education cess and secondary and higher education cess). Cost indexation benefits will not be available. Further, the provisions of the first proviso of section 48 of the Income Tax Act will not apply.
- d. In accordance with and subject to the provisions of section 115AD read with section 196D(2) of the Income-tax Act, no deduction of tax at source is applicable in respect of capital gains arising from the transfer of the equity shares payable to FIIs.

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- e. In the case of all non-resident shareholders, the above tax rates are subject to the benefits, if any, available under the double taxation avoidance agreements signed by India with the country of which the non-resident shareholder may be a tax resident, subject to fulfilment of conditions prescribed there under.

SPECIAL TAX BENEFITS UNDER THE INDIRECT TAX LAWS

The Annexure pertaining to indirect tax laws is based on the provisions of The Central Goods and Services Tax Act, 2017 / the Integrated Goods and Services Tax Act, 2017, the Union Territory Goods and Services Tax Act, 2017, respective State Goods and Services Tax Act, 2017, each as amended (collectively, referred to as "**Indirect Tax Laws**")

A. SPECIAL TAX BENEFITS AVAILABLE TO THE COMPANY AND ITS MATERIAL SUBSIDIARIES

As per the GST laws, any income earned out of extending deposits, loans, or advances in so far as the consideration is represented by way of interest or discount is exempted from payment of GST. Thus, interest income earned by the Company on loans granted is exempted from payment of GST.

Further, in accordance with the provisions of the GST law, every registered person is required to reverse input tax credit attributable to the exempt income (arrived by determining the ratio of exempt income over total income). However, Financial Institutions like NBFCs and Banks are given an option to reverse 50% of their total eligible input tax credit. Such option is available to the NBFC separately for each registration and in each year.

The Company and its Material Subsidiaries have exercised the option of reversal of 50% of their total eligible input tax credit for all its registrations.

B. SPECIAL INDIRECT TAX BENEFITS TO SHAREHOLDERS OF THE COMPANY

As per the GST laws, shares, being in the nature of securities, are specifically excluded from the definition of goods and services contained in Section 2(52) and 2(102) of the Central Goods and Services Tax Act, 2017 respectively. Consequently, the activity of sale of shares is not subject to the levy of GST. Similarly, income derived from shares (e.g., dividend) is not subject to the levy of GST under GST laws.

Notes

- i. The above Statement sets out the provisions of law in a summary manner only and is not a complete analysis or listing of all potential tax consequences of the purchase, ownership and disposal of equity shares of the Company.

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- ii. The stated benefits will be available only to the sole/ first named holder in case the equity shares are held by joint holders.
- iii. This Statement does not discuss any tax consequences in the country outside India of an investment in the equity shares of the Company. The shareholders/ investors in any country outside India are advised to consult their own professional advisers regarding possible income tax consequences that apply to them.
- iv. The possible special tax benefits are subject to several conditions and eligibility criteria which need to be examined for precise tax implications.
- v. Our views are based on the existing provisions of law and its interpretation, which are subject to changes from time to time. We do not assume responsibility to update the views consequent to such changes. We shall not be liable to any claims, liabilities or expenses relating to this assignment except to the extent of fees relating to this assignment, as finally judicially determined to have resulted primarily from bad faith or intentional misconduct. We will not be liable to any other person in respect of this Statement.
- vi. This Statement does not cover analysis of provisions of Chapter X-A of the Act dealing with General Anti- Avoidance Rules and provisions of Multilateral Instruments.

For **IIFL Finance Limited**

**MEGHA
GARODIA**

Digitally signed by
MEGHA GARODIA
Date: 2024.04.17
19:12:53 +05'30'

Authorized Signatory



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