



Agiwal & Associates

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Certificate For Note on Taxation

The Board of Directors/ The Buyback Committee
VLS Finance Limited,
Ground Floor, 90, Okhla Industrial Estate,
Phase III,
New Delhi – 110020

Dear Sirs,

Sub: Buyback of Equity Shares Face value of INR 10/- each (“Equity Shares”) by VLS Finance Limited (the “Company”; and the buyback, the “Buyback”).

1. We have been informed by the management of the Company that the board of directors of the company, pursuant to their meeting held on August 09, 2024, has decided to undertake the buyback through the tender offer process, in terms of the securities and exchange board of India (Buy back of Securities) Regulations, 2018 as amended (“the “SEBI Buyback Regulations”) and the Companies Act, 2013 and the Rules made thereunder, each as amended (“Companies Act”). We have been requested by the company to provide a note on the statement of tax benefits under the Income Tax Act, 1961 for the company and the shareholders on account of buyback of equity shares of the Company.
2. We hereby enclose as Annexure-1, a Note on taxation based on Income Tax Act, 1961.

Management’s Responsibility

3. It is the responsibility of the management of the company to record and maintain all information and documents relevant to the aforesaid proposed transaction of buyback of equity shares. The management has represented that the document and information maintained by it are free from material misstatement, whether due to fraud or error. For the purpose of this certificate along with memorandum of summary of direct tax implications on the provision of buyback we have relied upon the aforesaid documents and information.

It is the responsibility of the management of the company to comply with all the requirement as prescribed under the various law viz. Companies Act, 2013, Income Tax Act, 1961, SEBI Buyback Regulation 2018 etc., as applicable to the proposed transaction of buyback of equity shares.

Our Responsibility

4. Memorandum given by us does not constitute either an audit or a review made in accordance with the provision of companies Act read with SEBI buyback regulations, 2018 in this regard. The Annexure provided herewith is not binding any regulations will not take a position contrary to the same. If there is any change in the applicable law or



not take a position contrary to the same. If there is any change in the applicable law or regulations, the memorandum would necessarily have to be reevaluated. We shall not be responsible for any financial or other losses that any person may suffer by relying on the memorandum.

5. The company or other users of the memorandum shall apply their own judgement while relying on it for whatsoever matter. The firm shall not be liable for any and all losses, claims, damages and liabilities, whatsoever and howsoever caused, incurred, sustained or arising from, or in connection with, any difference of opinion by any person or statutory authority with this working. In view of the particularized nature of the direct tax consequences, the shareholders are required to consult their tax advisors for the applicable tax provisions including the treatment that may be given by their respective tax officers in their case, and the appropriate course of action that they should take.
6. Shareholder, who are non-residents in India, In respect of direct tax consequence (including capital gain tax, if any) in their state of residence, are required to consult their tax advisors for the applicable tax and the appropriate course of action that they should take considering the provision of the relevant country or state tax law and provisions of DTAA, where applicable.
7. The memorandum being issued by us is limited to the information provided by the management of the company to ensure that it gives a true and fair summary of the Income tax provisions related to the Buyback of the equity shares in the hands of the company and the equity shareholders. The memorandum sets out the provisions of the law in a summary manner only and does not purport to be a complete analysis or listing of all potential tax consequences of the disposal of equity shares.
8. We conducted our examination in accordance with the Guidance Note on Reports or certificates for Special Purposes ("Guidance Note") issued by the Institute of Chartered Accountants of India and Standards on Auditing specified under Section 143(10) OF The Companies Act, 2013, in so far as applicable for the purpose of this certificate. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.
9. We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audit and Review of Historical Financial Information, and Other Assurance and related services engagements.

Opinion

10. In connection with the above, based on our examination, we are of the opinion that the attached memorandum [enclose herewith as Annexure 1] provides a reasonable and fair summary of direct tax implications applicable on the Company and the equity shareholders of the Company in respect of Buyback of equity shares by the company.

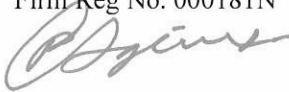
Restriction on Use

11. The memorandum may be relied upon by the Company, manager to the Buyback and the legal counsel appointed by the Company in relation to the Buyback. We hereby consent to our name and extracts of or reference to this memorandum, being used in the draft letter of offer, the letter of offer and other documents, as required, in connection with the Buyback. We also consent to the submission of this memorandum as may be necessary, to any regulatory authority and/ or for the records to be maintained by the Manager to the Buyback in connection with the Buyback and in accordance with the



applicable law. Other than the express consent given hereinbefore, we do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this memorandum is shown or into whose hand it may come without our prior consent in writing.

For Agiwal & Associates
Chartered Accountants
Firm Reg No. 000181N



CA P. C. Agiwal
Partner
Membership No. 080475
Date: August 24, 2024
Place: Delhi
UDIN: 24080475BKFLBA4208

Annexure-1

Memorandum- Note on Taxation

THE SUMMARY OF THE TAX CONSIDERATIONS IN THIS SECTION ARE BASED ON THE CURRENT PROVISIONS OF THE TAX LAWS OF INDIA AND THE REGULATIONS THEREUNDER, THE JUDICIAL AND THE ADMINISTRATIVE INTERPRETATIONS THEREOF, WHICH ARE SUBJECT TO CHANGE OR MODIFICATION BY SUBSEQUENT LEGISLATIVE, REGULATORY, ADMINISTRATIVE OR JUDICIAL DECISIONS. ANY SUCH CHANGES COULD HAVE DIFFERENT TAX IMPLICATIONS ON THESE TAX CONSIDERATIONS.

IN VIEW OF THE PARTICULARIZED NATURE OF TAX CONSEQUENCES, SHAREHOLDERS ARE REQUIRED TO CONSULT THEIR TAX ADVISORS FOR THE APPLICABLE TAX PROVISIONS INCLUDING THE TREATMENT THAT MAY BE GIVEN BY THEIR RESPECTIVE TAX OFFICERS IN THEIR CASE, AND THE APPROPRIATE COURSE OF ACTION THAT THEY SHOULD TAKE.

THE COMPANY DOES NOT ACCEPT ANY RESPONSIBILITY FOR THE ACCURACY OR OTHERWISE OF THIS TAX SUMMARY AND THERE CAN BE NO LIABILITY ON THE COMPANY IF ANY ACTION IS TAKEN BY THE SHAREHOLDER SOLELY BASED ON THIS TAX SUMMARY. THEREFORE, SHAREHOLDERS CANNOT RELY ON THIS ADVICE AND THE SUMMARY TAX IMPLICATIONS RELATING TO THE TREATMENT OF INCOME TAX IN THE CASE OF BUYBACK OF EQUITY SHARES LISTED ON THE STOCK EXCHANGE SET OUT BELOW SHOULD BE TREATED AS INDICATIVE AND FOR GUIDANCE PURPOSES ONLY.

1.1 General

The Indian tax year runs from April 1 to March 31 of subsequent year. The basis of charge of Indian income-tax depends upon the residential status of the taxpayer during a tax year. A person who is a tax resident of India is liable to taxation in India on his worldwide income, subject to certain prescribed tax exemptions provided under the Income Tax Act, 1961 ("ITA").

A person who is treated as a non-resident for Indian tax purposes is generally liable to tax in India only on his/her Indian sourced income or income received by such person in India. Vide Finance Act, 2020, certain non-resident individuals are deemed to be resident in India upon triggering of certain conditions. Deemed residents would be liable to pay tax in India only on their Indian sourced income or income from business or profession controlled in India.

In case of shares of a company, the source of income from shares would depend on the "situs" of the shares. As per ITA and Judicial precedents, generally the "situs" of the shares is where company is "incorporated" and where its shares can be transferred. Accordingly, since the Company is incorporated in India, the shares of the Company would be "situated" in India and any gains arising to a non-resident on transfer of such shares should be taxable in India under the ITA subject to any specific exemption in this regard. Further, the non-resident can avail the beneficial tax treatment prescribed under the Double Taxation Avoidance Agreement ("DTAA"), as modified by the Multilateral Instrument (MLI), if the same is applicable to the relevant DTAA between India and the respective country of which the said shareholder is tax resident. The above benefit may be available subject to satisfying relevant conditions prescribed under ITA including but not limited to availability of Tax Residency Certificate, non-applicability of General Anti-Avoidance Rule ("GAAR") and providing and maintaining necessary information and documents as prescribed under ITA as well as satisfying the relevant conditions under the respective DTAA including anti-abuse measures under the MLI, if applicable.



1.2 Classification of shareholders

Section 6 of the ITA determines the residential status of an assessee. Accordingly, shareholders can be classified broadly in two categories as below:

A. *Resident Shareholders being:*

- Individuals, Hindu Undivided Family (HUF), Association of Persons (AOP) and Body of Individuals (BOI), Firm, LLP
- Others (corporate bodies):
 - Company
 - Other than Company

B. Deemed Resident Shareholder –an individual being a citizen of India who is not liable to tax in any other country or territory by reason of domicile, residence or any other criteria of similar nature and has total income other than foreign sourced income exceeding Rs. 15 lakhs during the tax year.

C. *Non-Resident Shareholders being:*

- Non-Resident Indians (NRIs)
- Foreign Institutional Investors (FIIs) / Foreign Portfolio Investors (FPIs)
- Others:
 - Company
 - Other than Company

1.3 Buyback of shares

Section 115QA of the ITA introduced w.e.f. June 1, 2013 contains provisions for taxation of a domestic company in respect of Buy-Back of shares (within the meaning of Sec. 68 of the Companies Act, 2013). In effect, the incidence of tax stands shifted completely to the Company and not the recipient of the buyback proceeds.

Before the enactment of Finance Act (No 2), 2019, this section was not applicable to shares listed on a recognized stock exchange. The Finance Act (No 2), 2019 has amended section 115QA of the ITA with effect from 5th July, 2019 extending its provisions to cover distributed income on Buy-Back of Equity Shares of a company listed on a recognized stock exchange as well.

As per Section 115QA, listed companies making a public announcement of Buyback of shares on or after 5th July 2019 are required to pay an additional Tax @ 20%, plus Surcharge @ 12%, plus Health & Education Cess @4% on the Distributed Income.

Distributed Income is defined under section 115QA to include Consideration paid by the company on buyback of Shares as reduced by the amount which was received by the company on issue of such shares, determined in the manner specified in Rule 40BB.

The tax on the distributed income by the company shall be treated as the final payment of tax in respect of the said income and no further credit therefor shall be claimed by the company or by any other person in respect of the amount of tax so paid.

No deduction under any other provision of this Act shall be allowed to the company or a shareholder in respect of the income which has been charged to tax.



Section 10(34A) of the ITA provided for exemption to a shareholder in respect of income arising from buyback of shares w.e.f. April 1, 2014 (i.e., Assessment year 2014-15). The Finance Act (No. 2), 2019 has also made consequential changes to section 10(34A) of the ITA extending the benefit of exemption of income from Buy-Back to shareholders in respect of shares listed on recognized stock exchange as well.

Thus, the tax implications to the following categories of shareholders are as under:

A. Resident Shareholders or Deemed Resident Shareholders

Income arising to the shareholder on account of Buy-Back of shares as referred to in section 115QA of the ITA is exempt from tax under the provisions of the amended section 10(34A) of the ITA with effect from July 5, 2019.

B. Non-Resident Shareholders

While the income arising to the shareholder on account of Buy-Back of Equity Shares as referred to in section 115QA of the ITA is exempt from tax under the provisions of the amended section 10(34A) with effect from July 5, 2019 in the hands of a Non-resident as well, the same may be subject to tax in the country of residence of the shareholder as per the provisions of the tax laws of that country. The credit of tax may or may not be allowed to such non-resident shareholder to be claimed in the country of residence in respect of the Buy-Back tax paid by the company in view of Sec 115QA (4) and (5) of the ITA. Non-resident shareholders need to consult their tax advisors with regard to availability of such a tax credit.

1.4 Tax deduction at source

Currently, there are no provisions for tax deduction at source in respect of income earned from transfer/ Buy-Back of Equity Shares in case of resident shareholders/ deemed resident shareholders.

Given that income arising on account of the Buy-Back of Equity Shares is exempt from tax under Section 10(34A) of ITA, the same would not be subject to tax deduction at source for non-resident shareholders.

1.5 Securities transaction tax

Since the Buyback of Equity Shares shall take place through the settlement mechanism of the stock exchange, securities transaction tax at 0.1% of the value of the transaction will be applicable.

1.6 Non-Applicability of Recent Amendments in The Finance (No. 2) Act, 2024

At Present the amount received by the eligible shareholders as consideration from the company in respect of buyback of its shares by the company is not taxable in the hands of the eligible shareholders.

As per the Finance (No. 2) Act, 2024, this position will change as, w.e.f. 01/10/2024, the said consideration amount so received by the eligible shareholders from the company in respect of buyback of its shares by the company will be taxed in the hands of eligible shareholders.

Since in case of buyback proposed by VLS Finance Ltd of its shares, the payment to eligible shareholders will be made before 30/09/2024, hence the new provisions of Buyback enacted in the Finance (No. 2) Act, 2024, will not be applicable to eligible shareholders of VLS Finance Ltd.



Accordingly, the amount received as buyback consideration by domestic eligible shareholders of VLS Finance Ltd will not be taxable in their hands.

Caveat:

THE SUMMARY OF THE TAX CONSIDERATIONS AS ABOVE IS BASED ON THE CURRENT PROVISIONS OF THE TAX LAWS OF INDIA, WHICH ARE SUBJECT TO CHANGE OR MODIFICATION BY SUBSEQUENT LEGISLATIVE, REGULATORY, ADMINISTRATIVE OR JUDICIAL DECISIONS.

IN VIEW OF THE SPECIFIC NATURE OF TAX CONSEQUENCES, SHAREHOLDERS WHO ARE NOT TAX RESIDENTS OF INDIA ARE REQUIRED TO CONSULT THEIR TAX ADVISORS FOR THE APPLICABLE TAX AND THE APPROPRIATE COURSE OF ACTION THAT THEY SHOULD TAKE CONSIDERING THE PROVISIONS OF THE RELEVANT COUNTRY OR STATE TAX LAW AND PROVISIONS OF DTAA WHERE APPLICABLE.

