

Cross-National analyses of venture capital taxation frameworks: An examination of prominent economies

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Executive Summary---This research endeavour meticulously investigates and juxtaposes the taxation frameworks pertinent to venture capital (VC) across several nations, namely: India, the United States, Singapore, China, Japan, Australia and the United Kingdom. It critically assesses fundamental components such as the treatment of capital gains, taxation of carried interest, fund structures, investor obligations and regulatory encumbrances. The discourse elucidates global best practices while simultaneously illuminating policy deficiencies prevalent in emerging economies. In light of the tax law amendments for the fiscal year 2024–25, it proffers timely policy insights that are of significant relevance to scholars, tax practitioners and regulatory authorities.

Abstract---This scholarly article undertakes a comparative examination of the venture capital (VC) taxation frameworks in India, the United States, Singapore, China, Japan, Australia and the United Kingdom. By concentrating on aspects such as capital gains, carried interest, fund structures, investor taxation and loss treatment, it underscores the merits and drawbacks inherent in the taxation approach of each jurisdiction. The analysis

How to Cite:

Srinivas, H. N., Dharanendra, M., Natesh, M. H., & Thejashree, D. (2026). Cross-National analyses of venture capital taxation frameworks: An examination of prominent economies. *The International Tax Journal*, 53(1), 30–43. Retrieved from <https://internationaltaxjournal.online/index.php/itj/article/view/493>

The International tax journal ISSN: 0097-7314 E-ISSN: 3066-2370 © 2026

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Submitted: 09 September 2025 | Revised: 18 November 2025 | Accepted: 27 December 2025

reveals that the United States, Singapore, Australia and the United Kingdom afford a more conducive and transparent landscape for VC investment, whereas India, China and Japan encounter obstacles regarding regulatory intricacies and definitional clarity. The manuscript integrates the most recent policy reforms, regulatory modifications and overarching global trends in VC taxation as of 2024–25. It culminates with pragmatic recommendations aimed at harmonising India's VC tax framework with established international best practices.

Keywords---Venture Capital, Taxation, Carried Interest, Capital Gains, Loss Treatment, AIF, Pass-through, International Tax Policy.

1. Introduction

VC is crucial for nurturing innovation, supporting entrepreneurs and enhancing economic progress, particularly in areas with high risks and rewards, such as tech, health and sustainable energy (Srinivas & Srinath, 2024). As VC engagement proliferates across international markets, taxation frameworks exert a considerable influence on the locations and modalities of capital deployment (ROMAIN & POTTERIE, 2003). The architecture of taxation; particularly concerning capital gains, carried interest and fund income, can either incentivise or dissuade both domestic and foreign investors. Furthermore, the distinctness of regulatory policies and the straightforwardness of administrative functions are key to the effective management of funds and the trust of investors.

This analysis showcases a comparative review of the tax frameworks for venture capital in seven nations: India, the United States, Singapore, China, Japan, Australia and the United Kingdom. These countries include a mix of developed and developing markets, each having different approaches to how venture funds are set up, how investors are treated, how losses are handled and what tax benefits are offered. While countries such as the USA, Singapore and the UK are frequently lauded for their investor-conducive tax environments, others, including India and China, persist in grappling with obstacles stemming from vagueness, complexity and inconsistent policy implementation.

The research incorporates recent tax reforms, including changes enacted between 2023 and 2025 and investigates their ramifications for fund managers, investors and policymakers. Particular emphasis is placed on the evolving treatment of carried interest and loss set-offs, alongside the compliance burdens that influence cross-border VC transactions. By identifying exemplary practices and regulatory impediments, this research aims to furnish actionable insights to facilitate tax harmonisation, enhance investment climates and inform future policy formulation in both advanced and emerging economies.

2. Review of Literature

2.1. Capital Gain tax

The capital gain tax rate refers to the levies imposed on the financial gains realised from the divestiture of capital assets, including equity shares, business interests or fund participation (James M. Poterba, 1989)(Kallir & Agmon, 2022). In the realm of venture capital (VC), the implications of this taxation framework directly affect both investor returns and the organisation of funds. Nations exhibit significant variability in their taxation policies: certain jurisdictions extend preferential rates for long-term investments, while others enforce elevated tax rates or exemptions contingent upon the duration of asset holdings and the classification of the asset (Henrekson & Sanandaji, 2018)(Gilson & Schizer, 2003). An advantageous capital gains tax rate has the potential to foster investment, attract foreign capital and catalyse the growth of start-ups (Knoll, 2008). In contrast, elevated or ambiguous tax rates may hinder cross-border VC investments and diminish the competitive edge of the ecosystem.

2.2. Carried Interest Tax Treatment

Carried interest constitutes the proportion of profits that fund managers obtain as remuneration, generally approximating 20% of the total fund returns. The taxation of this interest differs among nations, some jurisdictions categorise it as capital gains (subject to lower tax rates), whereas others classify it as ordinary income (which incurs higher tax rates). The preferential treatment of carried interest fosters the engagement of fund managers and promotes long-term investment strategies. Nonetheless, it also provokes policy examination regarding issues of fairness and tax equity. Nations such as the United States provide favourable capital gains tax rates, in contrast to countries like China and Japan, which impose taxation on their personal income. The transparency and uniformity of this taxation policy crucially affect the incentives faced by fund managers.

2.3. Pass-Through Status of Funds

Pass-through taxation facilitates a venture capital fund's avoidance of entity-level taxation, thus allowing for the direct allocation of all income, gains or losses to the investors (Teubal & Luukkonen, 2006). This methodology enhances the efficiency of tax reporting mechanisms and reduces the prevalence of double taxation. Countries such as the United States, the United Kingdom and India (pertaining to specific classifications of Alternative Investment Funds) grant pass-through status to qualifying fund structures, including Limited Partnerships and Category I and II AIFs. This regulatory framework is pivotal for aligning the interests of funds and investors, promoting transparency and enhancing post-tax returns. Jurisdictions that do not possess well-defined pass-through regulations often dissuade foreign investment and complicate fund establishments, especially for international investors who harbour concerns regarding potential tax leakage.

2.4. Fund Structures

Diverse nations permit a variety of legal frameworks for venture capital funds, exemplified by India's AIF (Alternative Investment Fund), the U.S. LP (Limited Partnership), Singapore's VCC (Variable Capital Company) and Australia's ESVCLP (Early Stage Venture Capital Limited Partnership). These frameworks critically influence factors such as liability, regulatory supervision and taxation policies. An optimally structured fund facilitates compliance, safeguards investor interests and elucidates tax responsibilities. For instance, Singapore's VCC provides operational adaptability and fiscal advantages, whereas India's AIFs are characterized by intricate regulatory requirements. Jurisdictions that exhibit strong, investor-centric fund structures are more predisposed to drawing and sustaining venture capital investments, particularly from global stakeholders.

2.5. Tax exemptions and incentives for VC Funds or Investors

Governments frequently implement tax incentives to enhance venture capital engagement, which may encompass exemptions from capital gains tax, temporary income tax holidays or deductions applicable to qualifying investments. Singapore administers tax exemptions as delineated in Sections 13X and 13CA for sanctioned funds. The United Kingdom provides tax relief through the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) programs. Australia's Early Stage Venture Capital Limited Partnership (ESVCLP) framework grants exemptions for qualifying capital gains. Such incentives effectively mitigate the overall tax burden, augment post-tax returns and stimulate the allocation of risk capital towards start-ups and nascent enterprises. The existence, structuring and accessibility of these exemptions are crucial for rendering a jurisdiction appealing to both domestic and international venture capital stakeholders.

2.6. Loss Treatment Provisions

Loss treatment pertains to the mechanisms employed by tax systems that facilitate the offsetting of capital losses against capital gains or other forms of income. This phenomenon holds significant relevance in the realm of venture capital, where elevated failure rates among nascent enterprises are frequently observed. Certain jurisdictions, such as Japan and the United States, permit the carrying forward of losses for multiple years or, in some instances, indefinitely. Conversely, other jurisdictions

present limited or convoluted loss offset provisions. Favourable loss treatment mitigates downside risk, enhances fund viability and promotes sustained investment, even within sectors characterised by volatility. In contrast, restrictive or ambiguous loss treatment serves to deter long-term capital allocation and imposes penalties on investors in instances of start-up failure.

2.7. Regulatory and Tax Compliance Burden

The regulatory and tax compliance burden encompasses the intricacies, expenses and temporal investment associated with fulfilling a nation's legal and fiscal obligations pertaining to venture capital. This burden encompasses filing mandates, reporting responsibilities, audits and legal validations. Regions such as Singapore and Australia are recognised for their streamlined compliance methodologies, in contrast to nations like India and China, which frequently entail numerous regulatory entities and redundant procedures. Elevated compliance burdens exacerbate operational expenditures, prolong the establishment of funds and dissuade potential investors. A proficient, investor-orientated regulatory framework is indispensable for the advancement of venture capital markets and for the attraction of cross-border investment and fund management proficiency.

2.8. Double Taxation Avoidance Agreements (DTAAs)

DTAAs represent formal accords established between sovereign nations aimed at mitigating the incidence of taxation on the same income across multiple tax jurisdictions. These agreements are of paramount importance in facilitating cross-border venture capital investments, enabling foreign investors to circumvent withholding taxes imposed on capital gains, dividends or interest income. India has entered into DTAAs with numerous countries, although the implementation and efficacy of these agreements are increasingly subject to critical examination. The United States, Singapore and the United Kingdom actively leverage DTAAs to enhance their attractiveness as destinations for international capital inflows. Well-structured DTAAs serve to diminish tax leakage, augment fiscal certainty and elevate the desirability of a jurisdiction as a domicile for investment funds. Conversely, inadequately defined or vague provisions within DTAAs may deter global limited partners from committing capital to domestic venture capital funds.

2.9. Adherence to International Tax Norms

International tax norms, exemplified by the OECD's Base Erosion and Profit Shifting (BEPS) framework, foster transparency and equitable taxation and mitigate deleterious tax practices. Compliance with these standards is imperative for sustaining international credibility and evading potential blacklisting. Nations that conform to such protocols are perceived as stable and reliable destinations for investment. For venture capital, such compliance entails transparency in the reporting of fund income, the prevention of tax arbitrage and the assurance of equitable taxation across various jurisdictions. Jurisdictions that resist the adoption of these standards may encounter limitations on cross-border fund flows or heightened scrutiny from institutional investors, particularly in the context of global tax reform after 2023.

2.10. Cross-Border Venture Capital Flows

Cross-border venture capital flows pertain to international financial investments executed by venture capital firms into entrepreneurial enterprises situated beyond their domestic borders (Henrekson, Magnus; Sanandaji, 2016). The presence of tax treaties, exemptions on capital gains and clarity in regulatory frameworks profoundly affect these financial flows (Don & King, 1983). Favourable taxation structures entice foreign investments by guaranteeing elevated post-tax returns and mitigating legal complexities. In contrast, jurisdictions characterised by elevated withholding taxes, intricate fund registration protocols or limited networks of treaties frequently experience diminished inbound venture capital activity (ROMAIN & POTTERIE, 2003). The facilitation of capital movement, the simplification of tax repatriation and the effective utilisation of Double Taxation Avoidance Agreements (DTAAs) are imperative for nations aspiring to assimilate into global venture capital ecosystems and attract institutional funding from advanced markets.

2.11. Growth of Domestic Start-up Ecosystem

A robust domestic start-up ecosystem is contingent upon the provision of sufficient early-stage financing, supportive policy frameworks and incentives for entrepreneurship (Srinivas & Natesh, 2023). The taxation of venture capital significantly influences the availability of capital, the confidence of investors and the motivations of fund managers, all crucial elements for the funding of start-ups (Rosenberg & Marron, 2015). When tax frameworks endorse rapid fund establishment, efficient treatment of losses and investor-centric returns, a greater volume of capital is directed towards local enterprises (Holland & Jackson, 2011). Conversely, tax ambiguity or complexity may impede deal-making processes and dissuade risk capital investment. Consequently, an efficacious venture capital tax policy constitutes a fundamental component of a thriving innovation ecosystem, facilitating job creation, technological progress and scalable entrepreneurial development across various sectors.

2.12. Net Investor Returns (Post-tax)

Net investor returns quantify the actual profits that venture capital investors retain subsequent to the payment of taxes on capital gains, dividends and carried interest (Coppola et al., 2020). The tax rates applicable to these revenues; particularly those associated with long-term capital gains and interest income have a direct influence on the attractiveness of funds and reinvestment behaviour (Mayer et al., 2001). Jurisdictions that provide tax pass-through treatment, exemptions or credits enhance investor return on investment (ROI) and promote the recycling of capital (Collins et al., 2003). Elevated tax rates or insufficient clarity regarding carried interest may diminish these returns, thereby deterring engagement from global limited partners (LPs). Thus, optimising post-tax returns is vital for fostering a sustainable venture capital environment that effectively aligns risk with potential rewards.

2.13. VC Fund Formation Rate

The venture capital fund formation rate signifies the quantity of newly established venture capital funds within a jurisdiction on an annual basis. This rate is shaped by the ease of fund establishment, tax policies concerning fund income, carried interest and compliance requirements (Schlamp, 2020). Countries that facilitate streamlined fund structures (e.g., Limited Partnerships (LPs), Venture Capital Companies (VCCs)), coupled with supportive tax environments and regulatory efficiencies, tend to observe heightened fund creation. Conversely, convoluted legal frameworks, substantial initial expenditures and ambiguous tax implications particularly for foreign investors; constrain the formation of new funds (Teubal & Luukkonen, 2006). Therefore, a conducive tax and legal environment accelerates the expansion of the venture capital industry by lowering the barriers to entry for fund managers and attracting institutional investments.

2.14. Operational Efficiency and Compliance Costs for VC Firms

Operational efficiency refers to the degree to which venture capital firms can adeptly manage fund administration, tax obligations and regulatory reporting (Stewart & Webb, 2003). Elevated compliance costs stemming from multiple layers of regulation, frequent changes in tax legislation or a lack of automation, exacerbate the operational burdens faced by venture capital firms (Kalusová, 2020). Nations such as Singapore and Australia provide digital tax administration and single-window clearances, thereby mitigating these costs. In contrast, jurisdictions like India and China frequently encounter criticism due to their intricate procedural requirements. Streamlined processes augment fund scalability, diminish legal risks and permit a greater focus on portfolio development. Consequently, minimising compliance costs is crucial for empowering venture capital firms to operate competitively and achieve sustainable growth.

3. Research Methodology

3.1. Research Context

Venture capital (VC) has emerged as an essential catalyst for innovation, entrepreneurship and economic advancement in the 21st century. As nascent enterprises increasingly depend on VC financing

for expansion, the foundational taxation frameworks governing venture capital exert a significant influence on fund dynamics, investor engagement and the overarching efficacy of national start-up ecosystems. In a global context, governments are undertaking reforms of tax legislation to attract VC investments, facilitate cross-border capital movement and align regulations with international benchmarks such as the OECD's Base Erosion and Profit Shifting (BEPS) and Pillar Two initiatives.

This inquiry is embedded within the extensive policy and scholarly dialogue regarding the extent to which tax regimes either promote or obstruct venture capital operations. While numerous studies have examined individual countries, there is a notable lack of comparative analyses that evaluate the effectiveness and investor-friendliness of tax policies for venture capital across both developed nations (such as the USA, UK, Singapore, Japan and Australia) and emerging markets (including India and China). Furthermore, the recent legislative reforms enacted in 2024–25 have introduced substantive alterations, including digital fund management in Singapore, modifications to carried interest in the United States and streamlined Tax Deducted at Source (TDS) regulations in India, necessitating a renewed academic scrutiny.

This research endeavours to fill that void by offering a comprehensive, comparative assessment of VC taxation frameworks, concentrating on critical variables such as capital gains treatment, pass-through taxation, loss carry forward mechanisms, regulations governing foreign investors and systemic regulatory efficiency. The study gives important guidance to policymakers, tax practitioners and academics by elucidating best practices and pinpointing structural deficiencies, thereby enhancing the competitiveness of domestic venture capital ecosystems and promoting cross-border investment.

3.2. Research Questions

- 1) How do various legal jurisdictions impose taxation on venture capital funds and their associated investors?
- 2) What are the predominant obstacles encountered by venture capital firms as a result of tax legislation?
- 3) How carried interest is categorised within various tax structures?
- 4) What regulatory measures are available for the treatment of losses and exemptions from capital gains?
- 5) What insights can India and other developing economies derive from the practices of established markets?

3.3. Objectives of the Study

- 1) To evaluate the taxation frameworks associated with venture capital across diverse nations and scrutinise their repercussions on fund architectures, investor yields and regulatory efficacy.
- 2) To identify international exemplary practices regarding the taxation of capital gains, carried interest and losses, with a focus on guiding tax policy reforms in developing economies.

3.4. Scope of the study

This research endeavour is dedicated to a comparative examination of venture capital (VC) taxation frameworks across seven distinct nations; India, the United States, Singapore, China, Japan, Australia and the United Kingdom. It scrutinises pivotal elements including capital gains taxation, the treatment of carried interest, provisions for loss offsets, the structures of funds and mechanisms for pass-through taxation. The analysis underscores the manner in which these tax policies affect the formation of VC funds, the returns for investors and the flow of capital across national borders. The scope is confined to taxation elements that are directly pertinent to venture capital funds, fund managers and investors and it incorporates updates in policy up to the fiscal year 2024–25.

3.4. Constraints of the research

- 1) The research excludes taxation matters pertaining to angel investors, private equity or overarching corporate tax legislation unless they exert a direct influence on venture capital.
- 2) Taxation policies are inherently subject to frequent modifications; consequently, the data presented may experience obsolescence beyond the year 2025.
- 3) Each country's administrative practices and compliance procedures may vary and a comparative framework may not capture all practical subtleties.
- 4) Quantitative metrics such as the quantity of VC firms or actual investment volumes are contingent upon secondary sources, which may exhibit disparities in methodology and precision.

4. Venture Capital

4.1. Venture Capital in India

The origins of venture capital in India can be traced to the late 1980s, characterised by the advent of institutional initiatives aimed at nurturing innovation-centric enterprises. A significant and early milestone in this domain was the formation of the **Technology Development and Information Company of India (TDICI)** in 1988; a collaborative endeavour between **ICICI** and the **Unit Trust of India (UTI)**. TDICI is widely acknowledged as the inaugural formal venture capital institution in India. During the early 1990s, it undertook pioneering investments in technology-orientated enterprises, including nascent organisations such as **Technova**. These initial transactions were revolutionary at a period when **private equity** financing was virtually **non-existent in India**. The model employed by TDICI aimed to enhance indigenous innovation through the provision of risk capital to small and medium-sized enterprises (SMEs), particularly within the technology and industrial domains. This initiative established the groundwork for a systematic venture capital ecosystem in the nation, which experienced significant expansion following the economic liberalisation of 1991 and the subsequent involvement of international venture investors.

In the Indian landscape, the governance of venture capital largely resides in the domain of the Alternative Investment Fund (AIF) model, implemented by the **Securities and Exchange Board of India (SEBI)** to structure and guide private investments into nascent start-ups and high-growth firms. Venture capital funds customarily function under Category I and II AIFs, which are afforded favourable regulatory status due to their significant contribution to fostering innovation and entrepreneurial activities. The AIF paradigm facilitates the registration of pooled investment vehicles with SEBI, thereby enhancing transparency and bolstering investor confidence. Category I AIFs comprise venture capital funds that allocate resources to nascent start-ups, whereas Category II encompasses private equity and growth-orientated funds. While the framework allows for considerable flexibility in the design of funds, the complexities surrounding taxation and regulatory adherence remain a substantial concern. Recent reform initiatives have aimed to streamline compliance processes, particularly for international investors; however, difficulties continue to exist in domains such as carried interest classification and the structuring of multi-tiered funds. A more coherent and internationally harmonised tax strategy is essential to augment India's appeal as a destination for venture capital and to facilitate cross-border investment activities.

4.2. Venture Capital in the USA

The United States is internationally acknowledged as the birthplace and most developed centre of venture capital. Developing from the innovation strategies that were initiated after World War II, the venture capital domain began to form in the late 1940s with the launch of the American Research and Development Corporation (ARDC). Over the decades, the venture capital landscape in the USA has evolved in tandem with the rise of Silicon Valley, enabling early investment for revolutionary companies like Apple, Intel and Google. Today, venture capital entities in the United States primarily act as limited partnerships (LPs), following a stable regulatory environment overseen by the Securities and Exchange Commission (SEC). The American market is characterised by substantial capital reserves, a robust

entrepreneurial ethos and fiscal policies that encourage high-risk investments, including pass-through taxation and favourable capital gains treatment for carried interest. As a global standard, the venture capital landscape in the United States continues to draw international investment and influence innovation ecosystems worldwide.

4.3. Venture Capital in Singapore

Singapore has swiftly established itself as a significant venture capital centre in Southeast Asia, propelled by pro-business legislative measures, tax-advantaged fund architectures and proactive governmental support. The Monetary Authority of Singapore (MAS) has instituted regulatory frameworks such as the Variable Capital Company (VCC) and the Limited Partnership Fund (LPF) to enhance both domestic and international VC investments. The allure of the city-state is attributable to its conducive business environment, robust legal infrastructure and strategic access to burgeoning Asian markets. Government-affiliated initiatives such as SG-Innovate and EDBI have been instrumental in actively co-investing in deep-tech and innovation-centric enterprises. Singapore further incentivises foreign investors and fund managers through tax benefits under Sections 13X and 13CA. With a resilient financial ecosystem and a meticulously regulated landscape, Singapore is positioned as a preferred domicile for fund establishment and regional transactional activities.

4.4. Venture Capital in China

The venture capital landscape in China has experienced substantial expansion over the past two decades, fuelled by state-sponsored innovation objectives, rapid technological adoption and a vast consumer market. Initially, the venture capital scene was predominantly influenced by international investors; however, the emergence of domestic VC entities, such as Sequoia China and Hill house Capital, has transitioned the ecosystem towards local governance. The Chinese government has instituted various venture guidance funds and free trade zones (FTZs) to cultivate innovation, particularly in advanced technology sectors such as artificial intelligence, biotechnology and renewable energy. Nonetheless, the venture capital environment is constrained by rigorous regulatory oversight, restrictions on foreign capital and intricate repatriation regulations. The taxation structure for VC funds is also characterised by fragmentation, with disparate treatments contingent upon the fund's structure and registration status. In spite of these limitations, China retains its status as the second-largest VC market globally, underscoring its strategic focus on technological autonomy and the acceleration of start-ups.

4.5. Venture Capital in Japan

Historically, venture capital in Japan has exhibited a conservative nature; however, recent initiatives have sought to invigorate the sector through supportive start-up policies and fund promotion strategies. Key institutional players such as JAFCO and governmental initiatives under the Innovation Network Corporation of Japan (INCJ) have assumed pivotal roles within the ecosystem. Japanese VC funds conventionally employ the Investment Limited Partnership (ILP) or GK-TK (silent partnership) structures, which confer certain pass-through tax advantages. Although the VC market in Japan remains smaller than its counterparts in the United States or China, there has been a consistent increase in early-stage funding, particularly within the domains of robotics, deep tech and healthcare. Governmental endorsement of venture creation and university-associated innovation hubs is contributing to the transformation of the historically risk-averse investment culture. Nonetheless, regulatory and tax intricacies—particularly those concerning carried interest and loss treatment—persist as challenges for both domestic and foreign VC engagement.

4.6. Venture Capital in Australia

The venture capital landscape in Australia has experienced significant development over the preceding decade, bolstered by governmental initiatives, superannuation funds and an uptick in private sector involvement. The nation presents distinct fund structures such as the Early Stage Venture Capital Limited Partnership (ESVCLP) and the Venture Capital Limited Partnership (VCLP), meticulously

crafted to confer tax advantages, including exemptions from capital gains tax. The regulatory environment is predominantly characterised by a light-touch approach, facilitating the operations and capital-raising efforts of fund managers. Australia's entrepreneurial ecosystem, particularly in sectors such as fintech, health technology and sustainable energy, has reaped benefits from strategic initiatives like the Australian Innovation Investment Fund and the CSIRO's Main Sequence Ventures. Although the venture capital market is comparatively smaller than those in North America or Asia, Australia's stable economic framework, robust research foundation and favourable tax regime for investors render it an increasingly appealing locale for early-stage capital investment.

4.7. Venture Capital in the United Kingdom (UK)

The United Kingdom has historically sustained a vigorous venture capital ecosystem, propelled by an amalgamation of well-established financial markets, regulatory endorsement and strategically crafted tax incentives. London, in particular, emerges as a global epicentre for venture capital activities, accommodating a diverse array of domestic and international funding entities. The British government has taken the lead in various efforts to promote initial investments, particularly through programs like the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs), which both offer significant tax advantages to backers. Venture funds are commonly set up as limited partnerships and are governed by the Financial Conduct Authority (FCA). The ramifications of the Post-Brexit milieu have introduced a degree of uncertainty, particularly concerning cross-border fundraising and the flow of capital from the European Union. Nonetheless, the UK continues to present a highly attractive environment owing to its innovation infrastructure, dynamic secondary markets and unwavering policy support for entrepreneurship and scalable enterprises.

4.8. Tax Policy Trends and Global Practices

The international tax environment pertaining to venture capital is undergoing a significant transformation in reaction to evolving economic priorities, the proliferation of digital assets and the impetus for enhanced international tax harmonisation. In the fiscal years 2024–25, governments are proactively re-evaluating venture capital tax policies to attract investment, guarantee equitable tax treatment and conform to global standards such as the **OECD's Pillar Two** minimum tax benchmarks and the **Base Erosion and Profit Shifting (BEPS) 2.0** initiatives. **Advanced economies**, including the United States, the United Kingdom and Singapore, are at the forefront by providing stable tax frameworks, safeguarding investor interests and offering clarity regarding carried interest. These nations have emphasised pass-through entities, streamlined digital compliance measures and incentives designed to foster fund establishment and innovation. **Developing nations**, particularly India and China, are actively enhancing their regulatory frameworks. India's digital initiative under the Securities and Exchange Board of India (SEBI) for Alternative Investment Funds (AIFs), along with reforms aimed at diminishing tax uncertainty and facilitating cross-border capital flows, illustrates an increasing ambition to compete on a global scale. Conversely, China, grappling with more stringent capital controls, is selectively opening venture capital avenues in free trade zones while re-evaluating the personal tax liabilities of fund managers. A prevalent global phenomenon is the incorporation of digital infrastructure within tax administration, which facilitates real-time reporting, **electronic Know Your Customer (e-KYC)** processes and enhanced fund transparency. Furthermore, there is heightened focus on climate technology and artificial intelligence-orientated venture capital funds, with certain jurisdictions providing tax incentives for green financing initiative.

5. Comparative Analysis of Tax treatment and set-off losses

Feature	India	USA	Singapore	China	Japan	Australia	UK
Capital Gains	10% LTCG, 15% STCG; 20% unlisted	20% LTCG	Exempt (unless trading activity)	20% individual; 25% corporate	~20.3% flat rate	Exempt for ESVCLP/VC LP	10% relief under EIS/VCT
Carried Interest	Draft CBDT: potential CG treatment (conditional)	LTCG (3-year rule, 5-year proposed)	5–10% concessional rate	Taxed as personal income (up to 45%)	Taxed as misc. income (~55%) unless structured	Concessional if ESVCLP	CGT (28%) unless exempt
Fund Structure	AIF (Cat I, II, III)	LPs (Delaware)	VCC, LPF	LP, Company Ltd.	ILP, GK-TK	ESVCLP, VCLP	LP, EIS, VCT
Pass-through	Yes (Cat I & II)	Yes	Yes	Partial (depends on registration)	Yes (ILP)	Yes (ESVCLP/VC LP)	Yes (LP); VCT treated as corp.
Foreign Investor Tax	TDS + DTAA (simplified in FY25)	FIRPTA + 1446(f) + Blockers	Exemptions via 13X schemes + digital on-boarding	10% WHT on gains; FTZ reliefs	WHT on dividends; CG exempt (<25% stake)	Exempt CG on qualifying VC	CGT and income tax as per treaty
Regulatory Burden	High	Moderate	Low	High (IIT, foreign rules)	Moderate (depends on structure)	Low	Moderate (FCA oversight)

Feature	India	USA	Singapore	China	Japan	Australia	UK
Loss Treatment	Carried forward 8 years; no set-off against salary	Unlimited carry forward; offset against all gains	Can be offset against income for 3 years	Limited carry forward; restrictions apply	Carried forward 10 years; offset rules complex	Offset allowed for up to 5 years	Offset against gains; EIS/VCT losses deductible under certain conditions

5.1. Significance of the Study in Academic Literature

This research possesses substantial importance within the contemporary academic and policy milieu, particularly as nations adjust their venture capital (VC) taxation frameworks in response to the phenomena of global digitalisation and transnational capital mobility. While various studies are dedicated to the taxation systems of separate countries, holistic examinations that include both mature economies (USA, UK, Singapore, Australia and Japan) and rising markets (India and China) are markedly infrequent in the existing academic discussions. By incorporating recent tax reforms from the period of 2024–25 and assessing their implications on fund configurations, investor yields and compliance intricacies, this investigation addresses a pronounced void. It contributes to the expanding dialogue on international tax competitiveness, regulatory alignment and the influence of taxation on the maturation of start-up ecosystems. Moreover, the research enhances the body of literature pertaining to institutional determinants that influence venture capital proliferation, such as legal transparency, pass-through mechanisms and the treatment of losses and carried interest, factors that are increasingly pertinent in the context of global investment patterns.

6. Conclusion

This comparative examination elucidates the pivotal influence that tax regimes exert on the configuration of the venture capital ecosystem across various jurisdictions. Nations such as the United States, Singapore, Australia and the United Kingdom have successfully established relatively stable, investor-orientated environments characterised by diminished capital gains taxation, efficient pass-through mechanisms and the unequivocal treatment of carried interest and losses. Conversely, India, China and Japan continue to grapple with institutional and regulatory impediments that curtail the growth potential of venture capital, particularly as a result of tax uncertainty and administrative intricacy.

In light of the increasing mobility and competitiveness of global capital, aligning national tax policies with internationally recognised best practices has transitioned from being merely advisable to absolutely essential. India, for instance, has the potential to achieve considerable benefits by streamlining its taxation framework for foreign investors, elucidating the tax implications of carried interest and alleviating regulatory burdens for Alternative Investment Funds (AIFs). As nations adapt to the reforms prompted by Base Erosion and Profit Shifting (BEPS) and the taxation of the digital economy, this paper functions as a strategic guide for creating tax policies for venture capital that promote innovation, facilitate cross-border capital movements and nurture entrepreneurial ecosystems. By addressing deficiencies in the existing academic literature and policy implementation, this study lays the groundwork for future inquiry, particularly concerning digital fund management, the taxation of artificial intelligence- and technology-driven venture capitalists and the ramifications of global tax harmonisation on early-stage investment activities.

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