

Special Purpose Vehicles

Special Purpose Vehicle is an important concept in the economics segment of the UPSC civil services exam. It is a term frequently seen in the newspapers. It is important for UPSC aspirants to familiarise themselves with the terms commonly seen in the newspapers.

It helps to understand the concept behind the news and additionally, helps in the UPSC prelims as well. This article will provide details about the concept.

What is a Special Purpose Vehicle?

A Special Purpose Vehicle (SPV) is a legal entity that is formed for a well-defined, sole and narrow purpose. It is generally a company formed to fulfil one or a group of narrow objectives by its promoters. SPVs are generally formed to isolate a company's assets or activities. The activities or assets are distanced into the new entity, i.e., the SPV and so investors or lenders feel more comfortable. It is basically a means to separate the risk and free up capital. The SPVs and the sponsoring company (sometimes the parent company) are insured against the risk of bankruptcy.

SPVs are also used to securitize loans or any other receivables. Other uses of SPVs include circumventing certain regulatory constraints, maintaining the confidentiality of intellectual property, property investing especially in countries that have different tax rates for property sale gains and capital gains.

To know more about Taxation in India, visit the linked article.

Uses of Special Purpose Vehicles

1. **Securitization:** Banks create SPVs commonly to securitise loans.
2. **Risk-sharing:** SPV creation allows companies to legally isolate risks of a project.
3. **Property sale:** If the taxes on property sales are higher than that of the capital gain, a company can establish an SPV which will own the properties for sale. Then, it can sell the SPV instead of the properties and then pay tax on the capital gain instead of the property sales tax.
4. **Asset transfer:** If certain assets are hard to transfer, a company can create an SPV to own these assets. After that, the company can sell the SPV as a part of a mergers and acquisitions process.

Special Purpose Vehicles Benefits

1. Direct ownership of a specific asset

2. Isolated financial risk
3. Easy to create

If the SPV is incorporated in a tax haven such as the Cayman Islands, tax savings can be had

Relevant Questions Regarding Special Purpose Vehicles

What is the purpose of an SPV?

A special purpose vehicle, also called a special purpose entity (SPE), is a subsidiary created by a parent company to isolate financial risk. Its legal status as a separate company makes its obligations secure even if the parent company goes bankrupt.

How do special purpose vehicles work?

A Special Purpose Vehicle (SPV) is a legal entity created for a specific purpose. In the context of raising capital, an SPV (usually structured as LLC) can be used as a funding structure, by which all investors (or investors under a given investment threshold) are pooled together into a single entity.

The above details would be of help to candidates preparing for UPSC exams this year.