

TAX FLASH NEWS

CBDT clarifies on taxation of income from off-shore rupee denominated bonds

Recently, the Reserve Bank of India (RBI) issued a Circular¹ whereby it has permitted Indian companies to issue rupee denominated bonds outside India. There was no clarity on the issue of taxation of the income arising from such bonds. The matter with respect to taxation of interest income from such bonds under the Income-tax Act, 1961 (the Act) has been considered by the Government of India.

On 29 October 2015, the Central Board of Direct Taxes (CBDT) issued a press release² wherein it has been clarified that withholding tax at the rate of five per cent would be applicable on the interest income from off-shore rupee denominated bonds in the case of non-resident investors. It would be applicable in the same way as it is applicable for off-shore dollar denominated bonds.

Further, it has been clarified that capital gains arising in case of appreciation of rupee between the date of issue and the date of redemption against the foreign currency in which the investment is made would be exempt from capital gains tax. Legislative amendment in this regard will be proposed through the Finance Bill, 2016.

Our comments

CBDT clarification on taxability of interest and capital gains on the off-shore rupee denominated bonds is a welcome move. This is expected to boost investment in off-shore rupee denominated bonds and attract more investment and capital inflows into India.



¹ RBI Circular No. 17, dated 29 September 2015

² Press Release, dated 29 October 2015

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