

Govt. clarifies tax treatment of offshore rupee-denominated bonds

Gains arising in case of appreciation of rupee against foreign currency, in which the investment is made, would be exempted from capital gains tax

Offshore rupee- denominated bonds will attract a withholding tax of five per cent, and gains arising in case of appreciation of rupee against the foreign currency in which the investment is made would be exempted from capital gains tax, the finance ministry clarified on Thursday.

The clarification comes in the wake of companies such as NTPC, IIFCL, and IRFC planning to issue rupee denominated bonds in markets abroad, and after foreign portfolio investors had sought clarification on the tax treatment of the instruments, dubbed masala bonds, in a meeting with finance ministry officials last week.

In the statement, the Central Board of Direct Taxes (CBDT) said the matter of taxation of income from such bonds under Income Tax Act, 1961 had been considered by the government.

“As far as taxation of interest income from off- shore bonds in the case of non- resident investors is concerned, it is clarified that withholding tax at the rate of five per cent, which is in the nature of final tax, would be applicable in the same way as it is applicable for off- shore dollar denominated bonds,” it said.

“Further, it has been decided that the 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 exempted from capital gains tax,” the statement said, adding that legislative amendments in this regard would be proposed through the finance Bill, 2016.

“What this move does is clear the confusion regarding masala bonds. This will help in putting the tax treatment of offshore rupee bonds on par with onshore bonds,” said Ajay Manglunia, senior vice president (fixed income), Edelweiss Securities.

“With the clarity on taxation matters, we should see movement from number of Indian companies, which were planning to issue rupeelinked bonds abroad but were awaiting tax clarification.

There are a lot of foreign institutional investors, which are not registered as FPIs in India. Issuing of the bonds by Indian companies will enable such FIIs to gain exposure to the currency,” Manglunia added.

NTPC, the country’s largest power producer, had said earlier this year that it plans to issue \$ 1 billion worth of global rupee denominated bonds to install additional power generation and other capital spending. IIFCL plans to issue \$ 500 million worth of masala bonds, while IRFC also plans to issue such bonds of an unknown quantum.

(Business Standard)