

Withholding tax on masala bonds set at 5%

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The withholding tax on rupee-denominated offshore bonds ('masala bonds') by domestic issuers has been set at five per cent, at par with that on external commercial borrowing (ECB) and domestic corporate bonds.

The Reserve Bank of India (RBI) had issued its proposed norms for these bonds in June. This had said investors in these could hedge both the foreign currency and credit risk through permitted derivative products in the domestic market. The cap for pricing these had been set at not more than 500 basis points (bps) above the yield on government bonds of corresponding maturity. Tax clarity on these had been awaited.

Meanwhile, Department of Economic Affairs Secretary Shaktikanta Das said in Mumbai on Monday that RBI will announce a scheme for floating rupee-denominated bonds overseas shortly.

“With a five per cent withholding tax, these will see good demand from investors. The onus of hedging is on the investor, not on the issuer. To buy corporate bonds, you have to be a registered foreign portfolio investor. But, to buy these masala bonds, registration is not compulsory, due to which these will have good demand,” said Ajay Manglunia, senior vice-president (fixed income), Edelweiss Securities.

In its review of monetary policy in April, the central bank had stated its intention to expand the scope of issuance of these bonds by international financial institutions, as also to permit Indian companies eligible to raise ECB to issue such bonds, with an appropriate regulatory framework.

For the draft norms, the regulator had given time till June 22 for comments. In the concept note, the tax treatment had not been mentioned.

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