

Ministry of Finance
Department of Economic Affairs
(Capital Market Division)

PRESS RELEASE

Subject: Rationalisation of With-holding tax (WHT) on foreign investments in Indian debt securities

To enhance resource availability for infrastructure development in the economy, the rate of With-holding tax (WHT) on interest payments on the borrowings of Infrastructure Debt Funds (IDF) was reduced from 20% to 5 % in the 2011-12 Budget. Subsequently, in the 2012-13 Budget, Section 194 LC was introduced in the Income tax Act to reduce the rate of WHT from 20 % to 5% in respect of interest paid on money borrowed in foreign currency from a source outside India in a period of three years i.e. 1/7/2012 to 30/6/2015 under a loan agreement and by way of long term infrastructure bonds issued in foreign currency.

2. In the Budget speech 2013 it was announced that necessary changes are proposed to be made to section to provide benefit of reduced WHT to cases where investment is made by a non-resident in rupee denominated long term infrastructure bonds. However, in order to provide broad based incentive and encourage greater off-shore investment in debt market by Foreign Institutional Investors (FIIs) and Qualified Foreign Investors (QFIs), it has been decided that the benefit of lower withholding tax [i.e. 5% instead of 20%] shall be available in respect of interest on investment made in bonds issued by Indian companies and Government securities. The benefit would be available in respect of interest income of FIIs and QFIs accruing between 1/6/2013 and 31/5/2015 irrespective of the date of investment. The necessary amendment to the Income-tax Act has been made through the introduction of new section 194LD and other consequential changes.

3. Further, in cases of investment in long term infrastructure bonds covered under section 194LC, where PAN of non-resident investor was not provided, the benefit of 5% WHT could not be availed due to the conditions of section 206AA. Considering the practical difficulty involved in obtaining PAN of non-resident investor in case of investment in long term infrastructure bonds, it has been provided that the benefit of reduced WHT shall be available even if the PAN of foreign investor is not obtained by the Indian company which is responsible for payment of interest and deduction of tax in respect of long term infrastructure bonds.

4. It is expected that aforesaid reduction in rates and simplification of the withholding tax norms would encourage greater subscription in Indian debt securities by foreign investors, encourage development of the Indian debt market and accelerate the pace of growth of the Indian economy.

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The Press Information Bureau is requested to give wide publicity to this press release.


(Anup Wadhawan)

Joint Secretary to the Government of India

**Press Information Officer,
Press Information Bureau,
Shastri Bhawan, New Delhi**