

## PRESS RELEASE

### MINISTRY OF FINANCE

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21<sup>st</sup> September, 2012

**Subject: Approval of loan agreements/ long term infrastructure bonds and rate of interest for the purpose of Section 194LC of the Income-tax Act, 1961- regarding.**

In order to enable low cost foreign borrowings by Indian companies, the Finance Act, 2012 had amended the Income-tax Act to lower the tax on such borrowings. The amendment to section 115A and insertion of section 194LC in the Income-tax Act provide that the interest income of a non-resident investor will be taxed at the reduced rate of 5 per cent instead of the existing rate of 20 per cent. Further, the liability of the Indian company to withhold tax on such income would also be at the reduced rate of 5 per cent. This lower rate of taxation will apply to interest paid to a non-resident by an Indian company for money borrowed in foreign currency from a source outside India either under a loan agreement or by way of long-term infrastructure bonds. This is also subject to the condition that the borrowing is made during the period from 01.07.2012 to 30.06.2015 and such borrowing and the rate of interest are approved by the Central Government.

With a view to lower the compliance burden and reduce the time lag which would arise on account of case-by-case approval, the Central Government has decided to grant approval to all borrowings by way of loan agreement and long-term infrastructure bonds that satisfy certain conditions. No specific approval in such cases would be required. Broadly, borrowings under a loan agreement or by way of issue of long-term infrastructure bonds that comply with External Commercial Borrowings (ECB) regulations as administered by the Reserve Bank of India (RBI) would be eligible for availing of the benefit of this concessional tax regime. Further, in case of long-term infrastructure bonds the end use of the proceeds of such bond issue should be for the infrastructure sector as defined by RBI under its ECB regulations. The details of the conditions to be satisfied are elaborated in the circular on approval of loan agreements/ long-term infrastructure bonds under section 194LC of Income –tax Act, dated 21/09/12 issued by the Central Board of Direct Taxes (CBDT).