# Withholding tax rate, norms eased for FIIs, QFIs

**The Centre seeks to provide broad-based incentive to encourage investment**

In a bid to encourage development of the domestic debt market and accelerate the pace of economic growth, the government, on Tuesday, announced reduction in withholding tax rates along with simplification of norms to attract greater subscription in debt securities by foreign investors.

Consistent with its policy of gradual easing of withholding tax (WHT) norms and extending the benefit of lower rates at 5 per cent — instead of 20 per cent earlier — to a larger cross-section of investors, the government has now sought to provide broad-based incentive and encourage greater offshore investment by foreign institutional investors (FIIs) and qualified foreign investors (QFIs) in the country’s debt market, including bonds issued by Indian companies and government securities.

Announcing the liberalisation, a Finance Ministry, in a statement, said: “…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**

The benefit, it said, would be available in respect of interest income of FIIs and QFIs accruing between June 1, 2013, and May 31, 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.

Further, the norms have also been simplified for cases of investment in long-term infrastructure bonds covered under Section 194LC where the PAN (Permanent Account Number) of non-resident investor was not provided and the benefit of 5 per cent WHT could not be availed of due to the conditions of Section 206AA.

Aimed at rectifying the problem, the Ministry statement said: “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.”

**Augmenting infra resources**

It may be recalled that to augment the availability of resources for development of the country’s infrastructure, the rate of WHT on interest payments on borrowings of Infrastructure Debt Funds (IDF) was reduced from 20 per cent to 5 per cent in the Budget for 2011-12. Subsequently, in the Budget for 2012-13, Section 194LC was introduced in the Income Tax Act to reduce the WHT rate from 20 per cent to 5 per cent in respect of interest paid on money borrowed in foreign currency from a source outside India in a period of three years — July 1, 2012, to June 30, 2015 — under a loan agreement and by way of long-term infrastructure bonds issued in foreign currency.

More recently, in the Budget speech for the current fiscal, Finance Minister P. Chidambaram had announced that necessary changes are proposed to be made to section to provide the benefit of reduced WHT to cases where investment is made by a non-resident in rupee-denominated long-term infrastructure bonds. However, the latest easing is aimed at providing FIIs and QFIs with the same benefits as is available to other categories of investors.

**Source : The Hindu**