

What's New

News Flash



September 2018

Government introduces measures to tackle mounting current account deficit; exempts interest income on masala bonds as one of the measures

Background

At a meeting chaired by the Prime Minister, Mr. Narendra Modi, the Central Government on 14 September 2018 undertook a decision to address the expanding current account deficit.

The Government has taken the following measures in relation to External Commercial Borrowings (ECBs), Rupee Denominated Bonds (masala bonds), and Foreign Portfolio Investment (FPI) in debt from both regulatory and tax perspective.

Regulatory

- To review the mandatory hedging condition for infrastructure loans (categorised as ECB).
- To permit manufacturing sector entities to avail ECB up to 50 MUSD with a minimum maturity of one year. Currently, the maturity period is three years.
- To review the removal of exposure limit of 20% of FPI's corporate bond portfolio to a single corporate group, i.e., company and related entities and 50% of any issue of corporate bonds.
- To remove the restriction on Indian banks, market making in masala bonds, including restriction on underwriting of masala bonds.

Tax

- Under the existing provisions of the Income-tax Act, 1961 a concessional tax rate of five percent is available to a non-resident, including a foreign company, which earns interest income from an Indian Company or a business trust on the monies lent by way of subscribing to rupee denominated bonds.
- The Government has decided to exempt the aforesaid interest income in respect of rupee denominated bonds issued outside India during 17 September, 2018 to 31 March, 2019. Consequently, no tax will be withheld on such interest payment.
- The relevant legislative amendments to give effect to the above are yet to be notified.

Key takeaway

The measures adopted by the Government of India may assist in improving the foreign exchange reserves of the country. Furthermore, the exemption of interest income may present masala bonds as a lucrative funding option.

Source: Media Briefing by Finance Minister Mr. Arun Jaitley & Press Release by the CBDT dated 17 September 2018

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