

# SPECIAL PROVISIONS FOR RUPEE DENOMINATED BONDS

Following benefits have been given to Non-Residents and foreign companies in respect of RDBs.

## **SECTION 10(4C): EXEMPTION IN RESPECT OF INTEREST ON RUPEE DENOMINATED BONDS (Introduced by Finance Act, 2019)**

1. **The following income shall be exempt from tax:**
  - any income by way of interest
  - payable to a Non-Resident or to a foreign company
  - by any Indian Company or business trust
  - on Rupee Denominated Bonds issued outside India
  - and such Rupee Denominated Bonds have been issued during the period beginning **17.09.2018 and ending on 31.03.2019**
  - The exemption shall apply till these bonds are redeemed.

**Note: There is no Tax deduction at source on such interest.**

2. In case RDBs are issued other than in the period 17.09.2018 to 31.03.2019, then the tax shall be levied at the **rate of 5% under section 115A** on the interest on RDBs. (TDS 5%)
3. **Benefit of first Proviso to section 48** is available in computing capital gains on RDBs issued by Indian company in case there is **depreciation in Indian Rupee**.

## **FIFTH PROVISO TO SECTION 48: EXEMPTION OF FOREIGN EXCHANGE FLUCTUATION GAINS FROM CAPITAL GAINS TAX UPON TRANSFER OF RUPEE DENOMINATED BONDS (RDB)**

4. **Exemption is available if:**
  - Assessee is a non-resident
  - Gains arise on account of appreciation of rupee against foreign currency
  - Gains arise on redemption of Rupee Denominated Bonds (RDBs)
  - **The benefit of Fifth Proviso is available even if non-resident has purchased the RDB from market. Needless to say, the benefit is also available to original subscriber of RDB.**

- Exemption is not available if RDB is transferred before maturity

5. As per section 47, the following transfers are not regarded as transfers and hence no capital gains shall arise.

(viiia) any transfer, made outside India, of a capital asset being rupee denominated bond of an Indian company issued outside India, by a non-resident to another non-resident.

(viiib) any transfer of a capital asset, being rupee denominated bond of Indian company made by a non-resident on a recognised stock exchange located in any International Financial Services Centre and where the consideration for such transaction is paid or payable in foreign currency.

6. The interest on RDBs earned by Foreign Institutional Investors and Qualified Foreign Investors is taxable @ 5%.

7. Where RDBs are issued on or after 01.04.2020 and are listed only on the stock exchange located in IFSC, interest earned by Non-Residents & foreign companies shall be taxable @ 4%.