Taxation, Repatriation & Compliance: What Every NRI Investor Must Know (With Current Tax Implications)

By Saptarshi Das, CFA *Dated: 5th Jan, 2026*

For Non-Resident Indians (NRIs) investing in India's capital markets, understanding tax regimes, withholding norms, and compliance requirements is as critical as selecting the right asset. Unlike resident investors, NRIs face **direct Indian tax liabilities on capital gains, dividends, interest, and other investment income**, along with mandatory tax deduction at source (TDS) on many transactions. This article lays out a clear, asset-wise, **current tax and compliance framework** that applies to NRIs under Indian law (FY 2025 – 26 and assessment year 2026 – 27).

---

1 — Capital Gains Tax: The Core Rules (Equities & Funds)

a) Listed Shares & Equity Mutual Funds

When an NRI sells listed Indian shares or equity-oriented mutual fund units, tax depends on how long the asset was held:

- **Short-Term Capital Gains (STCG)** — Gains on shares or equity units sold within **12 months** are taxed at **20% + applicable surcharge and cess**, with no indexation benefit. This applies whether the gain is from stocks or equity mutual funds sold before 12 months.
- **Long-Term Capital Gains (LTCG)** — Gains on assets held for **more than 12 months** are taxed at **12.5% on the amount exceeding ₹1 lakh** in a financial year (plus surcharge/cess).

Illustration:
If an NRI sells equity shares or an equity mutual fund and makes a ₹3 lakh gain:
✓ First ₹1 lakh of LTCG is exempt.
✓ Tax of **12.5% on ₹2 lakh = ₹25,000 plus surcharge/cess**.

b) Debt Funds & Other Non-Equity Schemes

For non-equity assets like debt funds, gold funds, and certain hybrid funds:

- **STCG:** Gains on holdings up to **3 years** are taxed at the investor's income tax slab rate (which for an NRI can reach up to ~30%).
- **LTCG:** Gains on holdings over **3 years** are taxed at **20% with indexation benefits** (indexation adjusts cost for inflation).

Note: Recent tax law revisions sometimes treat certain debt-oriented funds under slab rates regardless of holding period; professional advice on specific funds is recommended.

---

2 — Withholding Tax (TDS) on Investment Income

India's tax system requires **Tax Deducted at Source (TDS)** on many NRI investment incomes before payment is credited to the investor. This means tax is collected at the time of payout:

a) TDS on Capital Gains

- **Equity STCG: 20% TDS** on gains from sales within 12 months.
- **Equity LTCG: 12.5% TDS** on gains above ₹1 lakh in a financial year.
- **Debt Funds: 30% TDS** on short-term gains; **20% TDS on long-term with indexation**.

b) TDS on Dividends

Dividend income from Indian stocks or mutual funds is taxed in the NRI's hands and subject to **20% TDS** (plus surcharge/cess) if the total dividend from an AMC exceeds ₹5,000 in a financial year.

c) Interest Income

Interest paid on Indian fixed income instruments — such as corporate bonds or government securities — is generally subject to **20% TDS** for NRIs.

d) With PMS & AIF

For Portfolio Management Services (PMS) and Alternate Investment Funds (AIFs), the tax treatment mirrors that of the underlying assets:

- Equity-like gains face **20% STCG** and **12.5% LTCG**.
- PMS providers often **deduct TDS** before crediting net gains.
- AIF taxation follows similar capital gains norms, but fund structure (e.g., Category I vs Category III) affects pass-through and withholding. Professional guidance is usually needed.

---

3 — Dividends, Interest & Other Income

Dividends

Dividend income from Indian companies or mutual funds received by NRIs is taxable at **20% plus surcharge and cess**, and subject to TDS if above the threshold.

Interest on Bank Accounts

- Interest earned on **NRE and FCNR accounts** is tax-free in India.
- Interest on **NRO accounts** is fully taxable at slab rates and subject to TDS.

Other Income

Rental income, royalties, or fees for technical services earned in India also attract withholding taxes, commonly around **20%** subject to treaty benefits.

---

4 — Double Taxation Avoidance Agreement (DTAA)

India has tax treaties with multiple countries allowing NRIs to **avoid being taxed twice on the same income**. Under DTAA:

- You may claim relief or credit for Indian tax paid in your country of residence.
- The treaty benefit often reduces withholding rates (e.g., dividends) below the Indian domestic rate.
- A **Tax Residency Certificate (TRC)** is typically required to claim benefits.

Example: If an NRI resident in the UK pays **12.5% LTCG tax in India**, they might receive credit against UK capital gains tax liability under the India–UK DTAA.

---

5 — Repatriation & Filing Requirements

Investments funded from abroad through **NRE accounts** are usually fully repatriable (principal + gains). Investments via **NRO accounts** may have limits (e.g., up to USD 1 million per financial year) and constitute a different compliance pathway.

Even with TDS deducted at source, it's often beneficial to **file an Indian income tax return** to:

- Claim refunds if too much tax was withheld
- Consolidate investment income
- Document treaty relief claims

NRIs typically file using **ITR-2 or ITR-3** forms depending on income types.

---

6 — Compliance Best Practices

1. **Ensure Correct PAN**: Without a PAN, higher TDS may be applied.
2. **Keep Investment Records**: Dates, costs, and remittance sources matter for capital gains computation.
3. **Use Professional Tax Advisory**: Complex products like AIFs or PMS have nuanced treatment.
4. **Regular KYC & FATCA Updates**: India requires periodic residential status updates.

Conclusion

For NRI investors, tax planning is not an add-on — it's an integral part of investment strategy and net return realization. With capital gains taxed at **12.5–20%**, dividends at **20%**, and interest commonly at **20%**, understanding how each asset class is taxed and how TDS applies ensures greater clarity, improved net returns, and smoother regulatory compliance. Professional guidance and sound documentation are invaluable in optimizing your India investment outcomes.