

Certain payments to units in IFSC exempted from TDS

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The government has exempted certain payments made to units of 14 services sectors in IFSC from TDS provisions effective April 1, a move which will reduce tax compliance burden.

The Central Board of Direct Taxes (CBDT) in a notification said that no TDS will have to be deducted for payments to units in sectors like FinTech, banking, fund management entity, finance company, credit rating agency, insurance intermediary and investment banking.

The TDS exemption will now be applicable on payments like professional/referral fee, brokerage income, interest on External Commercial Borrowings /Loans, insurance commission, divi-

dend and credit rating fee.

International Financial Services Centre (IFSC) in Gujarat is being developed as a tax-neutral enclave for the financial sector.

Nangia & Co LLP Partner Amit Agarwal said the notification by the CBDT offers a significant relief by exempting specified payments made to the units in IFSC from TDS.

Previously exemptions from withholding tax were limited to payments associated with leasing of ships, leasing of aircraft among others. However, the recent notification broadens the scope, encompassing various payments such as interest on ECBs, professional fees, referral fees, dividend income to finance companies, banking units, etc, established in IFSC.

Govt notifies list of payments made to IFSC units that are TDS-exempt

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The Income Tax Department has exempted receipts by 14 types of units, set up in the International Financial Services Centre (IFSC), from Tax Deducted at Source (TDS). Experts say such a move will help in expansion of business and investments.

The new norm will come into effect from April 1.

The units include banks, insurance intermediary, finance company, broker dealer, investment advisor, custodian, trade finance service and fintech besides others. Receipts include professional fees, commission, dividend income, interest income on external commercial borrowing, referral fees, brokerage income, investment advisory fee, credit rating fee, trusteeship fee, technical fee etc. A detailed notification dated March 7 has been issued.

SUBJECT TO CONDITIONS

However, non-requirement of TDS will be subject to fulfilment of some conditions. For example, 'payee' (one who is receiving payment) shall furnish a statement-cum-declaration in Form No. 1, for each



Exemption from TDS will be subject to fulfilment of certain conditions

year, to the 'payer' (one is making payment) giving details of previous years relevant to the 10 consecutive assessment years for which the 'payee' opts for claiming Section 80LA deduction. Another condition says 'payer' shall not deduct tax on payment made or credited to 'payee' after the date of receipt of copy of Form No. 1 from the 'payee'. Also, 'payer' shall furnish the particulars of all the payments made to 'payee' on which tax has not been deducted in view of this notification in TDS statement.

It has been clarified that the TDS relaxation shall be available to the 'payee' only during the said previous years relevant to the 10 consecutive assessment years as declared

by the 'payee' in Form No. 1 for which Section 80LA deduction is being opted. Further, it has been said that in any other year, the 'payer' shall be liable to deduct tax on payments as referred to in the list.

According to Amit Agarwal, Partner with Nangia & Co LLP, previously, exemptions from withholding tax were limited to payments associated with leasing of ships, leasing of aircraft among others. However, the recent notification broadens the scope, encompassing various payments such as interest on ECBs, professional fees, referral fees, dividend income to finance companies and banking units, established in IFSC.

Sumit Singhania, Partner with Deloitte India, says this is an important machinery provision being introduced in the law that helps align the tax exemption benefit for eligible IFSC units to withholding provisions.

"Waiver of withholding requirement helps mitigate the cash trap IFSC units were to face. Moreover, this tax change is intended to add to growing traction in IFSC and accelerate the FDI flows in emerging financial /economic zones," he said.