

CBDT notifies new rules for foreign investors of AIFs operating in IFSC

Synopsis

The board exempted foreign investors of AIF category I and II from requiring PAN if the fund deducts tax from their income and details of the investor's name, address, country of residence and Tax Identification Number of the investor's territory of residence is provided to the fund.



Foreign investors in alternative investment funds (AIF) operating in an international financial services centre (IFSC) will not require a permanent account number or PAN, the Central Board of Direct Taxes (CBDT) said in a set of new rules notified on Tuesday.

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"The provisions of section 206AA shall not apply in respect of payments made to a person being a non-resident, not being a company, or a foreign company if the provisions of section 139A do not apply to such person on account of rule 114AAB," the board said in the notification dated August 10.

Further, the fund will have to furnish quarterly statements for such investors in Form 49BA, which the board notified separately.

Experts said the move addresses a long pending demand from foreign investor community for easing tax compliance requirements, more so, since the IFSC will withhold tax payable by investors.

"Tax withholding at AIF level ensures that there is no tax revenue leak for India. It's a welcome move," said Richie Sancheti, head of Investment Funds at the law firm Nishith Desai Associates.

Obtaining PAN is considered obtaining tax registration in India, experts noted, adding that traditionally, feeder vehicles have been set up in Mauritius or Singapore to pool global investors to meet this compliance.

"The exemption would go a long way in making it easy for the fund managers to attract foreign investors in a fund set up in IFSC and would give impetus to IFSC as a fund jurisdiction," said Sunil Gidwani, Partner at Nangia Andersen LLP.

An IFSC caters to customers outside the jurisdiction of a domestic economy, while dealing with flows of finance, offering financial products and services across borders. India is developing Gujarat International Finance Tec-City Co. Ltd as the country's first IFSC, and has appointed an **IFSC Authority** to regulate all financial services in international financial services centres in India.