

Government may exempt foreign institutional investors from filing I-T returns

The government may exempt portfolio investors from filing income tax return as part of measures to address niggles and make the country attractive for foreign institutional investors (FIIs).

Finance minister P Chidambaram had met FIIs in Mumbai earlier this month to understand their concerns and based on the interaction promised fresh measures to perk up the market sentiment that has considerably improved in recent months.

"A proposal to exempt portfolio investors from filing income tax returns is under discussion," a senior finance ministry official told ET.

The department of economic affairs in the finance ministry, which is spearheading the attempts to improve business sentiment, has strongly backed the suggestion.

Stock market regulator Sebi has also backed exemption for individual foreign investors and trust called qualified foreign investors (QFIs) from filing of income tax return here.

More than half of country's portfolio investment is routed through Mauritius, which means that they are not liable to tax in India.

In such a situation, filing tax returns is seen as an unnecessary burden by FIIs. The law, moreover, does not clearly say if such FIIs have to file returns or not, but the Authority for Advance Rulings (AAR) has in some recent cases held that income tax return had to be filed even if income earned in India was exempt from tax.

The AAR decision in the case of Mauritius-based Ardex Investments is a case in point. Under the new dispensation being considered by the finance ministry, FIIs would need to file a return only if they have to claim a refund and an explicit mention would help clarify the law on the issue.

Tax experts say a move is consistent with the regime in most international financial centres and the proposal is in the right direction as information systems in the country are now very robust to facilitate effective tracking.

"Increased confidence and maturity attained by our system to gather relevant information by aggregation and analyzing scattered data available in various forms can trigger shift towards easier compliance," said Rahul Garg, direct tax leader - tax & regulatory services, PwC India.

The government is already following this approach in case of salaried individuals who are exempt from filing returns if their annual income is less than Rs 5 lakh.

The new general anti-avoidance rules (GAAR) suggested by the Parthasarathi Shome committee have already clarified the regime for taxing FIIs.

If the committee's recommendations are accepted and the government decides to

exempt FIs from filing returns, then tax related concerns of portfolio investors would largely be addressed.

The Shome committee in its interim recommendations suggested that the provision should not apply to FIs and their investors.

(Economic Times)