

Without tax clarity, masala bonds unlikely this year

Rupee- denominated offshore bonds or ‘ masala bonds’ by domestic issuers might not hit the market this financial year, as these await clarity on the withholding tax structure.

A different withholding tax structure for these would require amendments in the income tax law or an enabling provision. Union finance ministry sources indicate such changes are only likely in next years Budget.

“A withholding tax of five · per cent as desired would require enabling provisions in the Act. Such changes are unlikely to come up before the next Budget,” said a source.

In the Reserve Bank of India (RBI)’ s first bi- monthly monetary policy review for financial year 201516, held in April, it had stated an intention to expand the scope of issuance of these bonds by international financial institutions. As also to permit Indian companies eligible for external commercial borrowing (ECB) to issue such bonds with an appropriate regulatory framework.

Last month, RBI had come up with draft norms, according to which investors of rupee- linked bonds issued for foreign markets could hedge both the foreign currency risk and credit risk through permitted derivative products in the domestic market. The cap for pricing these has been proposed at not more than 500 basis points (five per cent) above the yield on government bonds of corresponding maturity.

Indian Railway Finance Corporation wishes to raise up to \$ 1 billion (Rs.6,300 crore) through offshore rupee bonds. Rajiv Datt, managing director, said as a comment to the draft norms they had asked for clarity on the withholding tax. “ We will wait for the final norms on these before taking a call,” he said.

In RBIs concept note, there was no mention of the tax treatment on these new market instruments, as a decision on this can be taken only by the revenue department.

“Currently, withholding tax for foreign institutional investors is they might not go for these bonds. Clarity on the withholding tax is important; it can come even before the Budget, provided there is willingness of the government,” said Ajay Manglunia, senior vice- president (fixed income), Edelweiss Securities.

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