

Circular No 26 / 2016

F.No. 275/26/2016-JT (B)  
Government of India/ भारत सरकार  
Ministry of Finance/ वित्त मंत्रालय  
Department of Revenue/(राजस्व विभाग)  
Central Board of Direct Taxes/(केन्द्रीय प्रत्यक्ष कर बोर्ड)

North Block, New Delhi  
4<sup>th</sup> July, 2016

Subject: Applicability of Section 197A(1D) and Section 10(15)(viii) of the Income-tax Act, 1961 to interest paid by IFSC Banking Units (IBUs) - Clarification regarding

Section 197A of the Income-tax Act, 1961 provides the circumstances in which deduction of tax at source is not required to be made under Chapter XVII of the Act. Sub-section (1D) of this section provides that deduction is not required to be made by an Offshore Banking Unit on interest paid on deposit made on or after 1.4.2005 by a non-resident or a person not ordinarily resident in India, or on borrowing on or after 1.4.2005 from such persons. Clause (viii) of sub-section (15) of section 10 provides that such interest will not be included in the total income. Offshore Banking Unit is defined in clause (u) of section 2 of the Special Economic Zones Act, 2005 as a branch of a bank located in a Special Economic Zone, which has obtained the permission under clause (a) of sub-section (1) of section 23 of the Banking Regulation Act, 1949.

2. Representations have been received by the Central Board of Direct Taxes for clarifying the applicability of Section 197A(1D) and Section 10(15)(viii) of the Income-tax Act, 1961 in respect of interest received from IFSC Banking Units (IBUs) set up in the Special Economic Zones. The matter has been examined, and it is observed that IBUs are branches of Indian Banks or Foreign Banks having presence in India, which are established in accordance with the RBI Scheme dated 1.4.2015, in the International Finance Service Centers that are set up in within the Special Economic Zones, as per Section 18 of the Special Economic Zone Act, 2005. Thus, the IBUs fulfil the necessary criteria for being considered Offshore Banking Units as defined in clause (u) of section 2 of the Special Economic Zones Act, 2005.

3. In view of the above, the Board hereby clarifies that in accordance with the provisions of Section 197A (1D) of the Income-tax Act, 1961, tax is not required to be deducted on interest paid by such IBUs, on deposit made on or after 1.4.2005 by a non-resident or a person who is not ordinarily resident in India, or on borrowings made on or after 1.4.2005 from such persons.

( Sandeep Singh )

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Copy To:

1. The Chairman, Members and officers of the CBDT of the rank of Under Secretary and above.
2. OSD to Revenue Secretary
3. All Principal Chief Commissioners of Income-tax & all Pr. Director General of Income-tax with the request to bring to notice of all officers.
4. The Pr. Director General of NADT, Nagpur

आयकर निदेशालय (भारत)  
नई दिल्ली-110055  
प्राप्ति सं. 4948  
दिनांक 6/7/16

For m. a.  
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5. The Pr. Director General of Systems, ARA, Jhandewalan Extension, New Delhi
6. The Pr. Director General of Vigilance,
7. The ADG (PR,PP&OL). Mayur Bhawan, New Delhi for printing in the quarterly tax bulletin and for circulation as per mailing list.
8. Comptroller and Auditor General of India.
9. ADG (Systems) for uploading on ITO website.
10. The Guard File.

*Sandeep*

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