



# ATLAS

BY BNP PARIBAS

## CASH MANAGEMENT

[www.cashmanagement.bnpparibas.com/cg](http://www.cashmanagement.bnpparibas.com/cg)



**BNP PARIBAS**

The bank  
for a changing  
world

# Disclaimer

This document has been prepared by BNP PARIBAS for informational purposes only. Although the information in this document has been obtained from sources which BNP PARIBAS believes to be reliable, we do not represent or warrant its accuracy, and such information may be incomplete or condensed. This document does not constitute a prospectus or solicitation.

All estimates and opinions included in this document constitute our judgement as of the date of the document and may be subject to change without notice. Changes to assumptions may have a material impact on any recommendations made herein.

This document is confidential and is being submitted to selected recipients only. It may not be reproduced (in whole or in part) to any other person without the prior written permission of BNP PARIBAS.

**Make sure to always check the latest updates on the [Atlas website](#)**

India is the world's largest democracy with a population of more than 1.3 billion, the second most populous nation behind China, but only the eighth country in emerging Asia in GDP per capita (on a purchasing power parity, or PPP, basis), just above Vietnam. Indeed, while Indian economic growth has averaged 6.7% over the period 2015-2019, real GDP per capita has increased by only 5.6%.

The COVID-19 crisis did not spare India, and like many of the emerging economies, the country's economic and social situation has deteriorated sharply. India recorded its first recession since the fiscal year 1979/1980. However, India's situation had already begun to deteriorate well before the onset of the pandemic, which only accentuated the country's weaknesses. The very sharp contraction in GDP triggered by COVID-19 highlights the economy's structural vulnerabilities, especially the large number of workers without social protection. Moreover, in the medium term, growth might fall short of 6% unless there is a significant easing of the structural constraints that are restricting the employment of regular workers and private investment. The fragility of India's banking and financial system is hampering economic growth even though banks are more solid than they were five years ago. Meanwhile, public finances are weak and the government's fiscal room for manoeuvre to support economic growth or face a new shock is very limited.

On the political front, Modi's government, elected for a second term in May 2019, managed to adopt key economic reforms to support medium term economic prospects in fall 2020. However, their implementation is still problematic.

## Summary

## BNP Paribas presence

BNP Paribas has been present in India since 1860, the second longest-established foreign bank in the country. The Bank has 8 business centres in Mumbai, Delhi, Bangalore, Hyderabad, Kolkata, Chennai, Pune and Ahmedabad, and 14,000 employees. It is one of the few international banks catering for the domestic, regional and global requirements of corporate customers.

BNP Paribas is a member of the local clearing house and offers comprehensive payment, collection and trade finance solutions. This includes partnering with leading local vendors for providing cash in transit and card collection solutions. The bank offers a variety of solutions to address the specific functional requirements in India, including online tax payments, remote [cheque](#) printing of cheques, a 'BankSmart' application for mobile phone authorisation, an online payment gateway, pre-signed blank cheques and post-dated [cheque](#) collections. These services enable customers to optimise efficiency and control whilst observing local payment practices.

## Currency

### Currency

- Indian rupee (INR).

### Exchange rates

	2016	2017	2018	2019	2020
Exchange rate: INR per USD	67.195	65.122	68.39	70.42	74.10

Source: IMF, International Financial Statistics, June 2021.

### Central Bank

- The Indian central bank is the Reserve Bank of India ([www.rbi.org.in](http://www.rbi.org.in)).

#### Bank supervision

- Most Indian banks are supervised by the RBI's Department of Supervision.
- Rural and most cooperative banks are supervised by the National Bank for Agriculture and Rural Development (NABARD – [www.nabard.org](http://www.nabard.org)).

## Bank accounts

### Resident / non-resident status

- A company is resident in India in any tax year if it has registered under the Indian Companies Act 1956, other specified Acts/laws or if, during the relevant tax year, the control and management of its



affairs were situated wholly in India.

- A non-resident company is one that is at least 60 percent owned by a non-resident or a Non-Resident Indian (NRI), i.e., someone with Indian citizenship who resides outside India.

## Bank accounts for resident entities

	Within INDIA	Outside INDIA
Local Currency	Permitted without restriction, not convertible	Not permitted
Foreign Currency	Permitted with restrictions, convertible	Permitted, with restrictions

## Bank accounts for non-resident entities

	Within INDIA	Outside INDIA
Local Currency	Permitted with restrictions, convertible for some entities	Not permitted
Foreign Currency	Permitted with restrictions, convertible	Not applicable

## Lifting fees

- Lifting fees may be applied on payments between resident and non-resident bank accounts.

## BNP Paribas Cash Management Capabilities

## Collections

Cash collections	✓
Cheque collections	✓

Direct debit collections	✓
Domestic incoming transfers	✓
Virtual IBAN	●
Virtual accounts	✓
International incoming transfers	✓
Card acquiring	✓

## Payments

Cash withdrawals	✓
Cheque payments	✓
Direct debit payments	✓
Domestic outgoing transfers	✓
Commercial cards	●
Virtual cards	✓
International outgoing transfers	✓
SWIFT gpi	●
Real-time international payments through BNP Paribas' network	●
Card issuing	●

## Channels

Local e-Banking	✓
Global e-Banking - Connexis	✓
SWIFT/ host to host	✓

## Payments & collections

### Market overview

The rapid adoption of digital payments in India – they accounted for 97% of the total non-cash retail payments in 2019-20 – has been encouraged by the central bank and the government. The RBI has established a Payments Infrastructure Development Fund to promote digital payment adoption across the country and removed charges for making online transactions via NEFT. It has also mandated that companies with an annual turnover of more than INR 500 million need to offer customers low-cost digital payment options, including the UPI QR Code and Aadhaar Pay. However, cash remains the dominant payment method for medium- and small-value transactions in India accounting for as much as 96% of total payment transaction volume in 2019-20

Electronic banking services are available from most banks, with services predominantly used by larger companies. There is no national electronic banking standard in India, so companies use banks' proprietary services.

Online and mobile banking services are provided by the country's leading commercial banks. As of March 2021, there were 566 banks permitted to provide mobile banking services. Digital systems include:

- The Bharat Interface for Money (BHIM) is a mobile app based on the UPI. It enables transfers between accounts directly through banks. Transactions are near real-time and can be conducted 24/7. Users can also check balances and use mobile numbers to send payments. There are 180 participant banks.
- The National Payments Corporation of India operates the Interbank Mobile Payments Service (IMPS), a real-time electronic funds transfer system. There are 629 participant banks in IMPS, with a customer base of over 22 million mobile phone subscribers.
- The Unified Payments Interface (UPI) enables users to make, receive and schedule online payments via smartphone. Payments are transferred directly between any two banks. There are 216 members of UPI.

# Payment Systems

RTGS	Type	<ul style="list-style-type: none"> <li>Real-time gross settlement.</li> </ul>
	Participants	<ul style="list-style-type: none"> <li>242 direct.</li> </ul>
	Transaction types processed	<ul style="list-style-type: none"> <li>High-value (above INR 200,000) and urgent INR-denominated credit transfers.</li> <li>Net obligations from India's other payment systems.</li> </ul>
	Operating hours	<ul style="list-style-type: none"> <li>24/7/365.</li> </ul>
	Clearing cycle details (e.g. cut-off times)	<ul style="list-style-type: none"> <li>Payments are cleared and settled in near real time (within two hours).</li> </ul>
	System holidays	<ul style="list-style-type: none"> <li>The NG-RTGS is closed on all Indian bank holidays.</li> <li>India's bank holidays are:               <ul style="list-style-type: none"> <li>2nd half 2021: July 11, 25, 31*, August 8, 15, 19*, 20*, 22, 29*, September 12, 26, October 2, 10, 24, 25*, 29*, November 14, 16*, 17*, 28, 29*, December 12, 25, 26.</li> <li>2022: January 8, 22, 26, February 12, 19*, 26, March 1*, 12, 19*, 26, April 1, 2*, 9, 10*, 14, 15, 23*, May 1, 3*, 14, 16*, 28, June 11, 25, July 9*, 10*, 23, August 9*, 13, 15, 16*, 27, September 10, 24, October 2, 5*, 8, 9*, 22, 24*, 25, November 8*, 12, 26, December 10, 24, 25.</li> </ul> </li> <li>* The date shown may vary by plus or minus one day. These dates are derived by converting from a non-Gregorian calendar (e.g., Muslim or Hindu) to the Gregorian calendar. Some of these dates cannot be determined in advance with absolute accuracy, even by the governing authorities. In the case of Muslim dates in particular, the feast days are determined by the sighting of a new/full moon.</li> </ul>
ECS	Type	<ul style="list-style-type: none"> <li>Multilateral deferred net settlement system.</li> </ul>
	Participants	<ul style="list-style-type: none"> <li>2,101 direct.</li> </ul>
	Transaction types processed	<ul style="list-style-type: none"> <li>Low-value and bulk electronic credit and debit payments.</li> </ul>
	Operating hours	<ul style="list-style-type: none"> <li>09:00-18:00 IST, Monday to Friday.</li> <li>09:00-15:00 IST, Saturday.</li> </ul>



	Clearing cycle details (e.g. cut off times)	<ul style="list-style-type: none"> <li>• Cheques are processed by one of four centralised clearing houses.</li> <li>• Cut-off times differ for each clearing house.</li> <li>• Locally cleared cheque payments are settled on a same-day basis.</li> <li>• Intercity cheque payments are settled on a next-day basis.</li> <li>• Cheques can also be cleared within two working days if they are processed by the speed clearing system.</li> <li>• Final settlement takes place via the RTGS.</li> </ul>
	System holidays	<ul style="list-style-type: none"> <li>• NECS is closed on all Indian bank holidays. (Dates as above)</li> </ul>
<b>CTS</b>	Type	<ul style="list-style-type: none"> <li>• Multilateral deferred net settlement system.</li> </ul>
	Participants	<ul style="list-style-type: none"> <li>• 2,005 direct.</li> </ul>
	Transaction types processed	<ul style="list-style-type: none"> <li>• <a href="#">Cheque</a> payments which are truncated into electronic items before being processed.</li> </ul>
	Operating hours	<ul style="list-style-type: none"> <li>• Monday to Saturday.</li> </ul>
	Clearing cycle details (e.g. cut-off times)	<ul style="list-style-type: none"> <li>• Cheques are processed by one of four centralised clearing houses.</li> <li>• Cut-off times differ for each clearing house.</li> <li>• Locally cleared cheque payments are settled on a same-day basis.</li> <li>• Intercity cheque payments are settled on a next-day basis.</li> <li>• Cheques can also be cleared within two working days if they are processed by the speed clearing system.</li> <li>• Cheques processed between banks in clearing zones that are not subject to speed clearing can take between 7 days and three weeks to clear.</li> <li>• Final settlement takes place via the RTGS.</li> </ul>
	System holidays	<ul style="list-style-type: none"> <li>• CTS is closed on all Indian holidays. (Dates as above)</li> </ul>
<b>NEFT</b>	Type	<ul style="list-style-type: none"> <li>• Multilateral deferred net settlement system.</li> </ul>
	Participants	<ul style="list-style-type: none"> <li>• 233 direct.</li> </ul>
	Transaction types processed	<ul style="list-style-type: none"> <li>• One-off and low-value electronic credit transfers.</li> </ul>
	Operating hours	<ul style="list-style-type: none"> <li>• Settlement takes place on a half-hourly basis. There are 48 half-hourly batches every day.</li> </ul>
	Clearing cycle details (e.g. cut-off times)	<ul style="list-style-type: none"> <li>• Settlement takes place on a half-hourly basis. There are 48 half-hourly batches every day. The settlement of first batch will commence after 00:30 hours and the last batch will end at 00:00 hours.</li> </ul>

	System holidays	<ul style="list-style-type: none"> <li>• NEFT is closed on all Indian holidays. (Dates as above)</li> </ul>
--	-----------------	---

## Credit transfers

- Credit transfers are used by companies to pay salaries and suppliers.
- High-value (above INR 200,000) and urgent INR-denominated credit transfers are settled in near real time via the RTGS. As of April 1, 2021, all payment transactions of INR 50 crore and above by entities processed via the RTGS or NEFT will require a Legal Entity Identifier.
- Low-value and non-urgent bulk credit transfers can be settled on a same-day or next-day basis via the ECS.
- Low-value and high-volume credit transfers can also be processed via the NACH on a same-day basis. NACH mandates have replaced all ECS mandates for all recurring payments such as credit card and utility bills.
- One-off and low-value credit transfers can also be settled via NEFT, IMPS and the UPI system.
- Cross-border transfers can be made via SWIFT and settled through correspondent banks abroad.
- In 2019, the volume of credit transfers processed totalled 18,486 million, with a value of INR 284 trillion, a 56% and 8.8% increase respectively on 2018.

## Direct debits

- Direct debits are used for regular payments, such as utility bills.
- Direct debits are settled on a next-day basis via the ECS or NACH system (NACH mandates have replaced ECS mandates for all regular bill payments).
- In 2019, 826 million direct debits and debit transfers were processed, with a value of INR 8 trillion, a 54.7% and 33.3% increase on 2018.

## Cheques

- The cheque is a popular cashless payment instrument, used by both consumers and companies.
- From January 1, 2021 the positive pay system' for cheques came into effect. Under the positive pay system, key details will require re-confirmation for payments above INR 50,000. It is hoped the new system will reduce cheque banking fraud.
- Cheques are truncated into electronic items before being processed via the CTS. In March 2021, the use of the check truncation system (CTS) was extended across all bank branches throughout the country.
- Settlement is on a same-day basis for local cheques and a next-day basis for intercity cheques.

- Non-local cheques in areas subject to speed clearing are cleared within two days.
- Non-local cheques in areas that are not subject to speed clearing can take up to three weeks to clear.
- Banks use courier services for cheque collection in areas where they do not have branch coverage. These cheques are cleared at local clearing houses through correspondent or partner banks.

## Card payments

- Card payments are increasingly popular, especially for retail transactions.
- As of January 2021, there were 888 million debit and 61.1 million credit cards.
- RuPay is India's national domestic payment card operator. There are over 600 million RuPay cards in circulation.
- Visa and MasterCard-branded payment cards are the most widely issued.
- Most debit and credit card payments are processed by the National Financial Switch (NFS) on a same-day or next-day basis.
- Visa card payments are processed via the Visa switch for settlement through Bank of America. MasterCard payments are processed via the MasterCard switch before being settled by the Bank of India. Visa and MasterCard payments are cleared on a next-day basis.
- The RBI is currently implementing a scheme for all cards to carry EMV chips.
- The number of card payment transactions carried out through credit cards and debit cards increased by 23.5% and 16.1% respectively in 2019/20, to 2,177.3 million and 5,123.9 million. Value increased by 21.1% and 35.6% to INR 7 trillion and INR 8.0 trillion respectively.

## ATM/POS

- There were 210,000 ATMs in India at the end of January 2021.
- There were six million POS terminals in India at the end of January 2021.
- Most card payments are settled on a same-day basis via the NFS network. A total of 112 banks participate in the NFS ATM network. A further 978 banks participate as sub-members.

## Electronic wallet

- The dominant electronic wallet schemes in India are pre-paid cards scheme. All prepaid payment instruments (PPI) in India are subject to a maximum value limit of INR 50,000 per month. Fifty-seven banks are permitted to issue pre-paid cards.
- There are an estimated 1,946 million PPI wallets and 175 million PPI cards in India. Mobile wallets can hold a maximum of INR 20,000.
- E-money payments are settled via their individual schemes.

- The UPI enables users to transfer money without sharing bank details. The UPI@PoS app can be used to make retail payments in-store. Paytm is the country's largest digital wallet provider, with approximately 200 million users. There are 207 live banks on UPI.
- QR payment options are available. The Reserve Bank has advised that all payment service operators shift to the interoperable UPI QR or Bharat QR by March 31, 2022. The launch of new proprietary QR codes is prohibited.
- In January 2021, there were 2,319 million mobile payments transacted, with a value of INR 9,384 billion.

## Short term investments

### Market overview

#### Interest payable on credit balances

- Interest-bearing current accounts are not available.

#### Demand deposits

- Demand deposits denominated in INR or major foreign currencies are available with terms ranging from overnight to one year.

#### Time deposits

- Time deposits are available in INR or major foreign currencies with terms ranging from one week to one year. Non-residents are required to invest for a minimum of 1 one year.

#### Certificates of deposit

- Domestic banks issue certificates of deposit with terms ranging from one week to 12 months. Terms of three months are most common.
- Certificates of deposit can be issued paying fixed or variable interest.
- The minimum investment amount is INR 100,000.
- Companies can also issue inter-corporate deposits. Terms are typically up to six months.

#### Treasury (government) bills

- The RBI issues Treasury bills at weekly auctions. Terms are typically for three, six and 12 months.
- India's government has also started to issue Cash Management Bills (CMBs), which are similar to Treasury Bills and have maturities of less than 91 days.

### Commercial paper

- Domestic commercial paper is issued by companies. Most paper is issued for three months, although terms ranging from seven days to 12 months are available.
- Commercial paper must have a published credit rating.
- The minimum investment amount is INR 500,000.

### **Money market funds**

- Money market funds are available.

### **Repurchase agreements**

- Repurchase agreements are only available in India for institutions approved by the RBI.

### **Banker's acceptances**

- Banker's acceptances are not available in India.

## BNP Paribas Trade Finance Capabilities

### Trade payments

Documentary credits	✓
Documentary collections	✓

### Guarantees

Bank guarantees	✓
Standby letters of credit	✓

## Supply chain management

Receivables	✓
Payables	✓
Inventory	●

## Trade channels

Connexis Trade	✓
Connexis Supply Chain	✓
SWIFTNet Trade for Corporates	✓
Connexis Connect	✓
	●
	●

- BNP Paribas Global Trade Solutions' (GTS) team in India consists of 15 trade managers across 6 trade centres in Ahmedabad, Bangalore, Chennai, Mumbai, Pune and New Delhi, and as such is one of the largest and most well-established presences within Asia Pacific. In addition to comprehensive support, BNP Paribas GTS' team in India supports a large volume of domestic trade activities.

## International trade



## General trade rules

- India is a member of the South Asian Association for Regional Cooperation (SAARC), which aims to abolish most trade tariffs between member states. SAARC comprises Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.
- India has 231 operational special economic zones.

## Trade agreements

- India is a signatory of the SAARC South Asia Free Trade Agreement (SAFTA).
- India has preferential access, economic co-operation and Free Trade Agreements (FTA) with about 54 individual countries. Most recently in April 2021, India's FTA with Mauritius came into effect.
- India is in FTA talks with a number of countries and trading blocs including Bangladesh, Chile, Indonesia, the European Union, South Africa Customs Union (SACU), the Gulf Cooperation Council (GCC), Australia, New Zealand, Israel, Panama and Colombia. Trade talks with the European Union (stalled since 2013) are set to revive in 2021.

## Imports / exports

Imports	Crude oil	Gold	Coal	Diamonds	Natural gas
Primary Import sources	China (15.0%)	USA (7.0%)	UAE (6.0%)	Saudi Arabia (5.0%)	
Exports	Petroleum products	Precious stones	Packaged medicine	Jewellery	Vehicles
Export markets	USA (17.0%)	UAE (9.0%)	China (5.0%)		

## Import / export volumes

	2016	2017	2018	2019	2020
--	------	------	------	------	------

Exports	- goods USD m	268,615	304,107	332,087	331,272	281,701
	- services USD m	161,819	185,294	204,956	214,762	203,253
Imports	- goods USD m	376,090	452,241	518,779	488,950	376,946
	- services USD m	95,922	109,371	124,182	130,535	116,230
Current account as % GDP		– 0.5	– 1.5	– 2.4	– 1.1	NA

Source: IMF, International Financial Statistics , June 2021.

## Trade finance - Imports

## Documentation

- The following documentation is required in order to import goods into India:
  - bill of entry
  - bill of lading
  - cargo release order
  - catalogs
  - certificate of origin
  - commercial invoice
  - import general manifest
  - inspection report
  - insurance certificate
  - packing list.
- Documentation, usually in the form of a bill of entry, is required for foreign exchange payments for imports in excess of USD 100,000 or the equivalent.

## Import licences

- Licences are required when importing certain animals, aircraft, meat, plants, seeds, armaments and antiques.

## Import taxes and tariffs

- An integrated goods and services value added tax (IGST) is applied on all imports into India. IGST is levied on the value of the imported goods plus any customs duty chargeable on the goods.

## Financing requirements

- None

## Risk mitigation

- None

## Prohibited imports

- Prohibited imports are published on a negative list.

## Trade finance - Exports

## Documentation

- The following documentation is required in order to export goods from outside India:
  - bill of lading (3 copies)
  - certificate of origin
  - commercial invoice

- customs export declaration
- insurance certificate
- packing list
- technical standards certificate
- terminal handling receipt.

## Export licences

- Permits are required when exporting goods covered by India's international treaty obligations, goods that may harm fauna or flora and goods that threaten national security.
- Licences are required when exporting textiles, animals, seeds, chemicals, mineral ores, agricultural items and food industry waste.

## Export taxes and tariffs

- Export taxes of between 10% and 60% are placed on animal skins, leathers and hides.

## Financing requirements

- None

## Risk mitigation

- The Export Credit Guarantee Corporation of India (ECGC) and the Export-Import Bank of India provide state-supported export credit insurance and financing.
- Export credit insurance and financing are also available from private companies.

## Prohibited exports

- India prohibits exports in line with international treaty obligations.

## Regulatory requirements

### Reporting regulations

- Reporting regulations are not set for non-bank companies in India.
- Banks are required to report information on foreign currency transactions to the RBI as part of their regular reporting cycle.

#### Reporting method

- Non-bank companies are not required to file reports with the RBI.
- Banks must submit all reports using official forms and include all supporting documentation.

### Exchange controls

- Exchange controls are administered by the RBI.
- Export proceeds must be repatriated within nine months of shipment, including businesses located in SEZs, unless authorized by the central bank. Export-oriented entities are permitted to hold 100% of foreign exchange receipts in foreign currency accounts in India. All proceeds from invisible transactions and current transfers must also be repatriated. Commercial credits from residents to non-residents with maturities of six months are permitted, but approval must be sought longer periods.
- Resident entities are permitted to lend foreign exchange to their subsidiaries or joint ventures abroad, up to a prescribed limit of their net worth.
- India has liberalised its rules on External Commercial Borrowings (ECB). Eligible borrowers are permitted to raise ECBs with a minimum average maturity period (MAMP) of ten years for working capital purposes, general corporate purposes, and repayment of rupee loans availed domestically for purposes other than capital expenditure, and seven years for repayment of rupee loans availed domestically for capital expenditure. Borrowing by NBFCs for on-lending for these purposes is also permitted.

## Taxation

### Resident / non-resident

- A company is resident in India if it is incorporated on India or if its place of effective management, in that year, is in India.
- A partnership firm, LLP or other non-individual entity is considered resident in India if any part of the control and management of its affairs takes place in India.

### **Tax authorities**

- Income Tax Department.
- Authority for Advance Rulings.

### **Tax year/filing**

- The corporation tax year is based on earnings during the financial year 1 April to 31 March.
- Taxes on income in a fiscal year are usually paid in the next fiscal year (assessment year). Companies must submit a final return by 30 September (30 November for companies required to file a certificate on international transactions (see Transfer pricing)) of the assessment year, stating income, expenses, taxes paid and taxes due for the preceding tax year. Returns for non-corporate taxpayers that are required by law to have their accounts audited also are due on 30 September. All other taxpayers must submit a return by 31 July. Taxpayers claiming tax holidays or carrying forward tax losses must file their returns on or before the due date.
- Companies must make four advance payments of their income tax liabilities during the accounting year on: 15 June (15% of total tax payable); 15 September (30% of total tax payable, cumulative amount 45% of total tax payable); 15 December (30% of total tax payable, cumulative amount 75% of total tax payable) and 15 March (25% of total tax payable, cumulative amount 100% of total tax payable).
- The filing deadline for all returns of income for FY 2019-20 is November 30, 2020, since various deadlines are extended in response to the COVID-19 pandemic.
- Consolidated returns are not permitted and each company must file a separate return.

## **Financial instruments**

- Generally, income from the sale of financial instruments is taxed as business income or capital gains, depending on the specific facts.

## **Interest and financing costs**

- Certain income such as dividends received from an Indian company is exempt from tax in the hands of the shareholder. The interest expense incurred by the shareholder on loans used for the purpose of making such investments which yield exempt income is disallowed on a pro-rata basis, in accordance with a prescribed formula.



- Income of foreign companies and other non-residents derived from interest arising on monies lent in a foreign currency from a source outside India to Indian companies between 1 July 2012 and 1 July 2017 is taxable at a rate of 5% (plus applicable surcharge and education cess) under an agreement approved by the central government. This benefit is currently available on borrowings made by all Indian companies, in foreign currency either under a loan agreement or by way of issue of long-term infrastructure bonds, as approved by the Central Government.

## Foreign exchange

- Under Indian GAAP, monetary items held in a foreign currency need to be converted into Indian rupees by applying the conversion rate at the end of the year. Any gain or loss on such conversion is credited/debited to the revenue account (if the underlying transaction is on revenue account) or adjusted in the cost base of the asset (if the underlying transaction is on capital account).
- Taxable profits and liabilities are expressed in Indian rupees. Specific rules exist for converting foreign currencies into Indian rupees.

## Advance tax ruling availability

- The Authority for Advance Rulings (AAR) issues rulings on the tax consequences of transactions or proposed transactions with non-residents. It is also able to issue rulings in relation to tax liability of residents in prescribed cases. Rulings are binding on the applicant and the tax authorities for the specific transaction(s). Advance pricing agreements are also possible.

## Capital gains tax

- The tax treatment depends on whether gains are long or short term. Gains are long term if the asset is held for more than three years (one year in the case of shares and specified securities). Long-term gains on listed shares and specified securities are exempt if the transaction is subject to the Securities Transaction Tax (STT). With effect from April 1 2018, the exemption is restricted to INR100,000. Any gain in excess of INR 100,000 is chargeable to tax at the rate of 10% (plus applicable surcharge and cess). Where such gains are not subject to the STT, a 10% tax applies (without benefit of an inflation adjustment).
- The applicable tax rate on long-term capital gains derived by a non-resident from the sale of unlisted securities is 10%. Gains on other long-term assets are taxed at 20% (with the benefit of an inflation adjustment).
- Short-term gains on listed shares and specified securities, which are subject to the STT, are taxed at 15%, and gains from other short-term assets are taxed at the normal tax rates. A surcharge and cess also are imposed.
- An unlisted domestic company is liable to pay an additional tax of 20% on any income distributed to a shareholder on account of a buyback of the company's shares.

## Withholding tax (subject to tax treaties)

Payments to:	Interest	Dividends	Royalties	Other income
Resident entities	10%/7.5%	10%/7.5%10%	1.5%/2.0%/ 7.5%/10%	1.5%/10%2%
Non-resident entities	5%/20%/40%	10%/20%	10%/20%	10%/20%

### Interest

- Interest paid to a non-resident on a foreign currency borrowing or debt generally is subject to a 20% withholding tax (plus any applicable surcharge and cess). A 5% WHT, plus the applicable surcharge and cess, applies to certain types of interest paid to a non-resident, including interest paid on specific borrowings made before July 1, 2023, in foreign currency and interest on certain investments made before July 1, 2023. These rates may be reduced under a tax treaty.
- Where a treaty applies, but the non-resident does not have a Permanent Account Number (PAN), i.e. a tax registration number, tax must be withheld at the higher of the applicable tax treaty rate or 20%; however this does not apply if the payments are in the nature of interest and the foreign taxpayer provides appropriate documentation.
- If the interest income derived by a non-resident does not fulfil certain prescribed conditions for concessional withholding tax rates, a withholding tax rate of 30% (for individuals and entities other than a foreign company) or 40% (for a foreign company), plus the applicable surcharge and cess, will apply.

### Dividends

- Dividends received from Indian companies prior to 1 April 2020 are tax-free.
- Dividends received after 1 April 2020 at the rate of 20% or treaty rate, whichever is beneficial.
- The rate is 10% for dividends paid on foreign currency bonds or global depository receipts.

### Royalties

- Royalties paid to a non-resident are subject to a 10% withholding tax, plus the applicable surcharge and cess. The rate may be reduced under a tax treaty.
- If a treaty applies, but the non-resident does not have a PAN, tax must be withheld at the applicable tax treaty rate or 20%, whichever is higher.
- Royalties paid to an Indian resident are subject to a withholding tax at 2% where the royalty is in the nature of consideration for the sale, distribution or exhibition of cinematographic films; otherwise the rate is 10%. The rates are temporarily reduced to 1.5% and 7.5%, respectively, for royalties paid as from 14 May 2020 through 31 March 2021.

### Technical service fees

- Technical services fees paid to a non-resident are subject to a 10% withholding tax, plus the applicable surcharge and cess. The rate may be reduced under a tax treaty.
- If a treaty applies, but the non-resident does not have a PAN, tax must be withheld at the applicable tax treaty rate or 20%, whichever is higher

## Tax treaties / tax information exchange agreements (TIEAs)

- India has double tax agreements in force with several countries that allow qualifying companies the benefit of reduced rates of withholding tax and the mitigation of double taxation. The law specifically provides that tax treaties override local tax law wherever they are more beneficial.
- The Finance Act 2013 provides that the condition of the certificate containing such particulars has been dropped and that the non-resident should furnish a certificate of his residence obtained by him from the government of that country or specified territory. Further, the Finance Act provides that the non-resident will have to provide such other documents and information as may be prescribed.
- Specific measures were introduced with regard to unaccounted monies, held outside India, of resident Indians.
- India has exchange of information relationships with more than 100 countries.
- India is a signatory of the Multilateral Competent Authority Agreement (MCAA) on the automatic exchange of country-by-country financial account information. Under this multilateral agreement, information will be exchanged between tax administrations, giving them a single, global picture on some key indicators of economic activity within multinational enterprises.

## Thin capitalisation

- There are no thin capitalisation rules under current domestic tax law in India.

## Transfer pricing

- The transfer pricing regime is influenced by OECD norms, although the penalty provisions in India are stringent compared to those in other countries. The definition of associated enterprise extends beyond a shareholding or management relationship, as it includes some deeming clauses.
- The scope of the transfer pricing provisions also cover “specified domestic transactions” (including payments to related parties) if the aggregate value of those transactions exceeds INR 200 million in one year.
- The pricing of these transactions must be determined with regard to arm’s length principles, using methods prescribed under India’s transfer pricing rules, which are similar to the methods prescribed in the OECD guidelines, with an additional sixth method, i.e. an “other method.” The arm’s length price is determined based on multiple-year data, and based on a range or the arithmetic mean (depending on certain prescribed conditions).

- The taxpayer is required to maintain detailed information and transfer pricing documents substantiating the arm's length nature of related-party transactions. Companies also may be required to submit a certificate to the tax authorities (in prescribed format) from a practicing chartered accountant that sets out the details of associated enterprises, international transactions, etc., along with the methods used to determine an arm's length price. The certificate must be submitted by the due date for companies required to submit such a certificate to file the annual tax return, i.e. 30 November.
- The Indian transfer pricing documentation requirements have been updated to incorporate the specific reporting regime in respect of country-by-country reporting and the master file provided for under the OECD/G20 BEPS project.
- Where the application of the arm's length price would reduce the income chargeable to tax in India or increase a loss, no adjustment will be made to the income or loss. Secondary adjustments will apply to transfer pricing adjustments relating to fiscal year 2016-17. The taxpayer is required to repatriate cash to India within a prescribed time to the extent of a transfer pricing arrangement.
- If a taxpayer that benefits from a tax holiday is subject to a transfer pricing adjustment, the benefit will be denied to the extent of the adjustment. The allowable variation in computing the arm's length price will be as provided by the government. Cash repatriation is required for any kind of transfer pricing adjustment.
- Safe harbour rules provide for the automatic acceptance of a taxpayer's transfer price equals or exceeds specified amounts.

## Stamp duty

- Financial instruments, real property and other specified transactions (including a court order for an amalgamation/demerger) in India attract stamp duties that are levied under the Indian Stamp Act and the stamp acts of the various states (with rates varying significantly between states).
- As from July 1, 2020, new rules apply for the imposition and collection of stamp duty on security market instruments by the states via a single agency (i.e. a stock exchange, clearing corporation or depository).

## Cash pooling

- India has no specific tax rules that apply to [cash pooling](#) arrangements. It is understood that notional [cash pooling](#) is not available in India, so [cash pooling](#) should involve the actual physical transfer of funds. [Cash pooling](#) tax issues that may need to be considered include deemed dividends [withholding tax](#) on interest and the application of [transfer pricing](#) rules to domestic transactions for interest and guarantee fee, if any.

## Financial transactions / Banking services tax

- Financial transactions such as lending, bill discounting and financial leasing are subject to service tax. However, tax is generally applicable on the up-front fees, processing charges and other service charges levied by the bank or financial institutions, but excluding the interest element. However, since service tax is a transaction-based tax, it is important to evaluate transactions to determine the indirect tax implications.

*All tax information supplied by Deloitte Touche Tohmatsu and Deloitte Highlight 2021 ([www.deloitte.com](http://www.deloitte.com)).*



**BNP PARIBAS**

The bank  
for a changing  
world