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**CBDT clarifies that salary credited to an Indian NRE bank account of a seafarer working on a foreign ship is not taxable**

**Issue no:** GES/13/2017

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## Background

- Section 5(2)(a) of the Income-tax Act (the Act) provides that income of a non-resident is taxable in India if such income is received or is deemed to be received in India.
- In case of individuals working on a ship outside the territorial waters of India, and where the salary is credited to an Indian bank, various judicial rulings have held that as the income is accrued overseas, the same is not taxable in India.

## Highlights of the circular

The Central Board of Direct Taxes (CBDT) has clarified that salary accrued by a seafarer shall not be taxable in India under the following circumstances:

- The individual is a non-resident in India under the provisions of the Act.
- The salary has accrued for services rendered outside India on a foreign ship.
- The remuneration has been credited to the NRE (Non Resident External) account maintained with an Indian bank.

## Comments

This is a welcome move for crew working on foreign ships as the circular clarifies that mere credit of salary to NRE bank account shall not be considered as income 'received in India'. Consequently, such income is not subjected to tax in India if the same has been earned for services rendered on a foreign ship.

However, the clarification seems to limit the benefit to seafarers of a foreign ship, and where salary is credited to an NRE account. A question arises on the availability of similar exemption for seafarers working on Indian ships where salary may be credited to Indian rupee accounts.

Similar challenges are also faced by other industries where Indian nationals are deputed overseas and continue to receive salary in India for services rendered overseas. Suitable clarifications in this regard would ease the burden of cash flow issues and avoid double taxation across all such situations.

**Source:** CBDT Circular No. 13/2017 dated 11 April 2017

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