## India moves closer to simplifying taxation of foreign portfolio investors

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The Indian Finance Ministry's Department of Economic Affairs (DEA) recently announced its support for taxing all foreign portfolio investors (FPIs) the same way.

According to a 24 December 2013 Securities and Exchange Board of India (SEBI) release, the DEA informed SEBI and the Central Board of Direct Taxes (CBDT) "that all three categories of FPIs would be given similar tax treatment as available to [foreign institutional investors, or FIIs] presently." Currently the three forms of FPIs are FIIs, FII subaccounts, and qualified foreign investors (QFIs). An effective date for the change was not announced.

The move is part of SEBI's plan to create a single class of foreign investors in order to simplify the overall foreign investment system. Creating a uniform taxation regime is key to the proposal.

SEBI has awaited the DEA's support since the board's 5 October 2013 decision to merge FIIs, FII subaccounts, and QFIs into a single FPI class as long as the FPI holds no more than a 10% equity stake in the company. The single class would then be subdivided into three categories based on risk profiles. Category 1 would be low risk – that is, government entities – while category 3 would be high risk – that is individuals, trusts, and anything not included in the other two categories. SEBI approached the Finance Ministry for clarification on the taxation of the new single FPI class.

The new rules will be included in SEBI's 2013 FPI Regulations, which were drawn up based in part on the recommendations of the Committee on Rationalisation of Investment Routes and Monitoring of Foreign Portfolio Investments, chaired by former Cabinet Secretary K.M. Chandrasekhar.

*(Please note that this is an edited version of the full Tax Analysts' article.)*