CBDT issues guidelines on SWF, pension fund tax relief

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NEW DELHI : The Central Board of Direct Taxes (CBDT) has issued a set of guidelines on the Income Tax Act provisions giving tax exemption to sovereign wealth funds (SWFs) and pension funds on their income from infrastructure investments in India.

The guidelines issued on Monday seek to bring more clarity on aspects like the riders attached to the tax incentive such as a three-year lock in period for the investments, computation of capital gain from transfer of investments, computation of the income from eligible investments on which tax exemption is available, tax audits and quarterly statement of investments. The guidelines explain what would be the consequences of not meeting different requirements set out in the Income Tax Act and in the rules.

CBDT had last week brought out a formula for computing the infrastructure investments of SWFs and pension funds that are eligible income tax incentives and the way of computing the tax-exempt income from these investments. The guidelines give illustrative examples of various calculations that investors may have to make.

Pension funds and SWFs putting their money directly or indirectly in the infrastructure sector through companies, infrastructure investment trusts, alternative investment funds, Infrastructure finance companies or infrastructure debt funds are eligible for total tax exemption on their income from these investments.

Section 10 (23 FE) of the Income Tax Act exempts the income earned from investments channeled into the infrastructure sector through these entities. The tax incentive covers income which is in the nature of dividend, interest or long-term capital gains arising from investments made in India between 1 April 2020 and 31 March, 2024.

The tax incentive introduced in the Income Tax Act by way of Finance Act 2020 has so far generated active interest from several SWFs and pension funds looking for long term investment opportunities.