



**Investment opportunities
for NRIs in India:
Commercial and tax
advantages**

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The Indian economy has shown remarkable growth over the past two decades and is now considered a stable economy while maintaining its strong growth prospects. This has changed the outlook of foreign investors towards India, who now prefer investing in Indian markets over other developing economies. For instance, today, India is one of the fastest growing economies in Asia. However, despite the global economic slow down, India's real GDP accelerated to 7.6% in FY 2015-16.

In financial year 2015-16, FDI equity inflows grew significantly by 33.61% to USD 35.2 billion between April 2015 and January 2016 on top of the 34.7% growth for the same time period in the previous year. Also, foreign exchange reserves are at an all-time high of USD 350.9 billion as on 4 March 2016.

The government is also taking multiple steps to identify and implement changes for encouraging foreign investments in India. Initiatives such as Make in India, the liberalisation of FDI, new free trade agreements and the new foreign trade policy have aimed at improving the ease of doing business in India.

An important aspect of policy-making has been to encourage Non-Resident Indians (NRIs) to invest their foreign earnings in India by providing tax incentives. In other words, NRIs have been offered a specific tax regime with respect to certain types of income. This has led to a growing number of NRIs recognising the investment opportunities available in India, especially considering the number of multinational corporations and professional money managers who are increasing their interests in India.

We discuss the popular investment avenues available to NRIs in India in the following paragraphs.

Investment in Securities

Indian capital markets are booming due to the stable government, expected reforms and the conducive business environment overall.

Analyses show that the Indian capital markets have been yielding impressive returns over the past few years. On an average, the rate of return on debts/fixed deposits (pre-tax) is 9% as compared to 1.5–2% in developed markets. The rate of return on equity has typically been 15–17% which is also higher compared to the returns in other developed markets.

Typically, NRIs prefer investing in mutual funds (equity- or debt-based), tax-free bonds and equity through portfolio investment schemes. One advantage is that, generally, the dividend received from all such sources is tax-free in the hands of the investor once the Dividend Distribution Tax (DDT) has been paid by the company or mutual fund.

Certain NRIs prefer maintaining deposits under the Non-Resident External (NRE) Rupee Account Scheme as the 4% interest earned from such deposits is completely tax-free in the hands of the NRI.

Even where interest income is taxable (i.e. in cases where interest is earned from non-convertible debentures of Indian companies, etc.), the rate of return (pre-tax) ranges from 8–9%. Even after considering the maximum tax impact of 35.54%, the net returns turn out to be much higher than post-tax returns in developed markets.

In certain cases, the capital gains earned from investments in Indian securities result in beneficial tax treatment as explained below:

- Long-term capital gains on listed securities are tax-free,
- Short-term capital gains are taxed at a concessional rate.

Exchange control regulations have also been relaxed to allow NRIs to freely repatriate these incomes from India on a regular basis subject to certain limits.

Investment in Real Estate

Risk-averse NRIs prefer investing in India through the acquisition of immovable properties. Over the past few decades, even when real estate prices across the world were falling, real estate investment in India was rising. Furthermore, with the Indian rupee not seeing substantial appreciation over the years, real estate investments have become a lucrative option for NRIs.

Generally, NRIs invest in immovable properties and rent the same to earn income on a regular basis. Against such rent, tax deductions are available for expenses on account of repairs, payment of municipal taxes, etc. In the case of money borrowed for acquiring the property, an NRI can also avail deductions on the interest paid on the borrowings, subject to the fulfilment of prescribed conditions.

From a tax perspective, capital gains from the sale of immovable property such as residential house property, office premises, etc. could be exempt from tax subject to the fulfilment of certain conditions. The conditions may be reinvestment of capital gains in specified bonds or other properties as specified within the stipulated period of time.

While computing capital gains, NRIs can also obtain the benefit of the cost-inflation index, provided the NRI has held the property for the long term.

Exchange control regulations have been relaxed to allow an NRI's repatriation of rental income and sale proceeds of up to two residential properties. There is no limit for the repatriation of rental income and sale proceeds of commercial properties.

An NRI can also invest in a Real Estate Investment Trust (REIT), a recently approved financial instrument/structure under the Foreign Exchange Management Act (FEMA). REITs while attracting long-term finance from foreign and domestic sources, including NRIs are expected to make available fresh equity to the real estate sector.

Double Taxation Avoidance Benefit

Another option available to NRIs for reducing their tax burden in India is to avail of the benefit of Double Taxation Avoidance Agreements (DTAA) between India and their country of tax residence. This could substantially reduce the tax burden on income such as interest from a Non-Resident Ordinary (NRO) Rupee Account, government securities, capital gains, etc.

Investing in India can be an extremely lucrative option for NRIs to earn high returns and grow their wealth. This is evident in the amount of funds already invested by FPIs, NRIs and Persons of Indian Origin (PIOs).

If you have any questions or need any assistance, please write to us at skptax@skpgroup.com.

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