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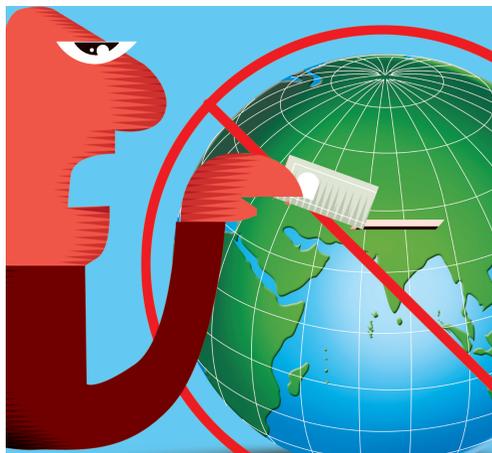
Compliance effect Even as PM Modi hardsells brand India abroad, US and Canada-based NRIs find themselves barred from investing in many Indian MFs

Prime Minister Narendra Modi's recent trip to the US is expected to pave way for investments worth \$41 billion in the next few years. 'Come to India, it's a win-win situation' was one of the biggest messages communicated to not just global business leaders in the US, but also to the vast Indian-American community.

But as always, when big things are in focus, small things lose out. This time, the impact will be felt by the US- and Canada-based NRIs investing in India and the Indian mutual fund industry. You would have heard from your NRI friends and relatives how large fund houses have barred them from investing in their schemes in India.

Since April this year, under US law, it has become extremely difficult for any financial institution around the world to deal with 'US persons', which includes US citizens and green card holders. The new law, the Foreign Account Tax Compliance Act (FATCA), makes it compulsory for all financial institutions in the world to report to the US government, comprehensive details of all transactions involving these 'US persons'.

The US has roped in foreign governments for cooperation and India, too, agreed to ensure compliance in April 2014. The reason for this change in law is to ensure non-evasion of taxes by US citizens. Tax residency is the



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base for charging income tax by governments across the world. For instance, if an Australian citizen works in India for more than six months in a financial year, all his income earned anywhere in the world, including Australia, will be subjected to Indian tax laws. However, to avoid double taxation, he will get a credit of the actual amount of tax paid by him in Australia as deduction from the total tax calculated as per his world income.

The US routinely faces such a situation. Most Indians working in the US will have some income in India in the form of interest or rent, through existing bank accounts and real estate. Simply put, the aim of the new law is to curb tax evasion. At the face of it, there are murmurs about this from several financial distributors and intermediaries who with their great *jugad* skills have managed the money for NRIs without thinking of compli-

ance. I do not blame them, the money they earn from this source as fee and commission is very attractive and such clients are also less of a hassle than the average demanding Indian investor.

The Securities and Exchange Board of India (Sebi) has also asked fund houses to register with US authorities and obtain a Global Intermediary Identification Number (GIIN) as part of the FATCA regulations by 31 December 2014.

Effectively, Indian financial institutions may have to withhold tax at 30 per cent from taxpayers who do not comply with the FATCA rules. While compliance-resisting intermediaries are crying foul, I feel the big picture is being missed. This is a very good and progressive move which ensures compliance when NRIs invest in India. At the moment, many do so with trepidation, which will go away the moment compliance comes in.

It is in the government's interest that this compliance is expedited to make Modi's vision come true. The upside is that the money invested will be like a permanent capital in India. This could well pave the way for more NRI money to find its way into India, contributing to a source other than the institutional promise of \$41 billion. Given the growth prospects in India, such investors would get a bang for their buck. □

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